



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

July 31, 1998

To the People of Kentucky
The Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet

As Auditor of Public Accounts, I am pleased to transmit herewith the report of our Statewide Single Audit of the Commonwealth of Kentucky for the year ended June 30, 1996. This report contains our independent auditor's reports on the Commonwealth's general-purpose financial statements and supplementary schedules of federal financial assistance; our reports on the Commonwealth's internal control structure; and our reports on the Commonwealth's compliance with laws and regulations.

On behalf of the Division of Financial Audit of the office of the Auditor of Public Accounts, I wish to thank the employees of the Commonwealth of Kentucky for their cooperation during the course of our audit. Should you have any questions concerning this report, please contact Anthony Leachman, Director, Division of Financial Audit, or me.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett".

Edward B. Hatchett, Jr.
Auditor of Public Accounts



**REPORT OF THE STATEWIDE SINGLE AUDIT
OF THE
COMMONWEALTH OF KENTUCKY**

For The Year Ended June 30, 1996

**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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INTRODUCTION

COMMONWEALTH OF KENTUCKY
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 1996

Audit Approach

The Auditor of Public Accounts, acting as principal auditor in conjunction with various certified public accounting firms, annually performs a statewide single audit of the Commonwealth of Kentucky. This audit allows the Commonwealth to comply with federal audit requirements as set forth in the Single Audit Act of 1984, as amended, 31 U.S.C. § 7501 et seq., and in its implementing regulations contained in the U.S. Office of Management and Budget Circular A-128, Audits of State and Local Governments.

The scope of the statewide single audit for the year ended June 30, 1996, included:

- An audit of the general-purpose financial statements and required supplementary schedules in accordance with generally accepted government auditing standards, except that a portion of the university and college discretely presented component units was audited in accordance with generally accepted auditing standards;
- An audit of supplementary schedules of federal financial assistance (excluding state universities, as discussed below) in accordance with generally accepted government auditing standards;
- A consideration of the internal control structure applicable to the Commonwealth's organizational units and administrative bodies, to determine our auditing procedures for the purpose of expressing our opinions on the general-purpose financial statements of the Commonwealth of Kentucky and on its compliance with requirements applicable to major federal financial assistance programs, and to report on the internal control structure in accordance with OMB Circular A-128; and
- A selection and testing of transactions and records relating to each major federal financial assistance program and certain nonmajor programs to obtain reasonable assurance that the Commonwealth administered its major federal financial assistance programs and executed the tested nonmajor program transactions in compliance with laws and regulations for which noncompliance could have a material effect on the allowability of program expenditures or on the Commonwealth's general-purpose financial statements.

As allowed by the Single Audit Act of 1984 and Section 6c of OMB Circular A-128, the Commonwealth of Kentucky elected to exclude state universities from the statewide single audit, except as part of the audit of the general-purpose financial statements. Thus, state universities are not included in the accompanying schedules of federal financial assistance and reports on internal control and compliance. It should be noted, however, that state universities are still required to have audits made in accordance with the provisions of OMB Circular A-133, Audits of Institutions of Higher Education and Other Nonprofit Organizations.

The general-purpose financial statements of the Commonwealth of Kentucky are included herein. These represent the liftable portion of the Commonwealth's Comprehensive Annual Financial Report which is available upon request.

Since not all state agencies use the Federal Grant Accounting Subsystem of the Statewide Accounting and Reporting System, the Auditor of Public Accounts requested all state agencies (excluding state universities) to prepare worksheets of federal financial assistance, both cash and noncash. The source of these worksheets included the Statewide Accounting and Reporting System, agency accounting systems, agency manual records, etc. The agencies were also asked to reconcile the worksheets to the Statewide Accounting and Reporting System and to federal grantor reports. These worksheets were compiled into the accompanying schedules of federal financial assistance.

List of Abbreviations/Acronyms Used in This Report

ACH	Automated Clearing House
ADD	Area Development District
A&E	Administration and Enforcement
AFR	Annual Financial Report
AIS/MR	Alternative Intermediate Services for the Mentally Retarded
AML	Abandoned Mine Lands
APA	Auditor of Public Accounts
ATP	Authorization to Purchase
CAA	Community Action Agency
CAFR	Comprehensive Annual Financial Report
CARS	Compliance and Receivable System
CASE	Disability Determination Tracking System
CCDBG	Child Care Development Block Grant
CCR	Change Control Request
CDBG	Community Development Block Grant
CEMS	DDS-Cost Effective Measurement System
CFC	Cabinet for Families and Children
CFDA	Catalog of Federal Domestic Assistance
CFR	Code of Federal Regulations
CHS	Cabinet for Health Services
CICS	Customer Information Control System
CIL	Corporate Tax System

List of Abbreviations/Acronyms Used in This Report (Continued)

Commonwealth	Commonwealth of Kentucky
CPAS	Claims Processing and Assessment System
CPU	Central Processing Unit
CS	Child Support
DAL	Division of Abandoned Lands
DATS	DIS Automated Tracking System
DCR	Design Change Request
DCSE	Division of Child Support Enforcement
DDS	Disability Determination System
DES	Department for Employment Services
DIS	Department of Information Systems
DLG	Department for Local Government
DLR	Division of Licensing and Regulation
DMS	Department for Medicaid Services
DOA	Division of Accounts
DRF	Discrepancy Report Form
DSI	Department for Social Insurance
DSS	Department for Social Services
EAB	DSI-Energy Assistance Branch
EDP	Electronic Data Processing
EEO	Equal Employment Opportunity
Empower	EMPower Our Workforce With Effective Resources
EXCEL	Microsoft Spreadsheet Software Package
FAC	Finance and Administration Cabinet
FFY	Federal Fiscal Year
FHA/VA	U.S. Farmers' Home Administration/Veterans' Administration
FS	Food Stamps
FSR	Financial Status Report
GAAP	Generally Accepted Accounting Principles
GAR	Governor's Authorized Representative
GASB	Governmental Accounting Standards Board
GMc	Glasscock McMullen
HCFA	Health Care Financing Administration
HIV	Human Immunodeficiency Virus
IHP	Individual Habilitation Plan
I/L	Investment/Loan Document
IMS	Information Management Systems
IR	Imprest Cash Document
IRP	Information Resource Plan
IT	Information Technology
JASDA	JTPA Annual Service Delivery Area
JCL	Job Control Language
JOBS	Job Opportunities and Basic Skills

List of Abbreviations/Acronyms Used in This Report (Continued)

JQSR	JTPA Quarterly Status Report
JTPA	Job Training Partnership Act
JV	Journal Voucher
KACA	Kentucky Association for Community Action
KAMES	Kentucky Automated Management and Eligibility System
KAPS	Kentucky Automated Purchasing System
KAR	Kentucky Administrative Regulations
KCA	Kentucky Automated Claims System
KDOE	Kentucky Department of Education
Kentucky Kare	Kentucky Kare Plan
KERS	Kentucky Employees Retirement System
KHC	Kentucky Housing Corporation
KHCP	Kentucky Health Care Program
KHESLC	Kentucky Higher Education Student Loan Corporation
KIS	Kentucky Information System
KRC	Kentucky Revenue Cabinet
KRS	Kentucky Revised Statutes
LANS	Local Area Network System
LEA	Local Education Association
LIHEAP	Low-Income Home Energy Assistance Program
MA	Memorandum of Agreement
MH/MR	Mental Health/Mental Retardation
MIS	Management Information System
MMIS	Medicaid Management Information System
MRO	Management Review Office
NA	Not Applicable or Not Available
NDC	National Drug Codes
NREPC	Natural Resources and Environmental Protection Cabinet
OAG	Office of the Attorney General
OFMEA	Office of Financial Management and Economic Analysis
OIG	Office of Inspector General, Cabinet for Families and Children
OMB	U.S. Office of Management and Budget
OPT	Omitted Property Tax System
OSB	DSI Operation Support Branch
OSCAR	On-line System Collective Accounts Receivable
OTR	Office of Training and ReEmployment
PC	Personal Computer
Personnel	Personnel Cabinet
PIV	Pay-In Voucher
PMS	Payment Management System
PO	Purchase Order
POC	Plan of Correction
PTL	Payroll, Time, and Labor

List of Abbreviations/Acronyms Used in This Report (Continued)

RACF	Resource Access Control Facility
Revenue	Revenue Cabinet
RFP	Request for Proposal
RMTS	Random Moment Time Study
RSA	Rehabilitation Services Annual Report
SAS	Statistical Analysis System
SDA	Service Delivery Area
SFY	State Fiscal Year
SSA	Social Security Administration
SSBG	Social Services Block Grant
STARS	Statewide Accounting and Reporting System
SURS	Surveillance and Utilization Review Branch
TPA	Third-Party Administrator
TPT	Tangible Property Tax
Treasury	State Treasurer's Office
TSO	Time Sharing Option
UI	Unemployment Insurance
UPPS	Unified Personnel and Payroll System
U.S.	United States
USC	United States Code
USDA	U.S. Department of Agriculture
WAN	Wide-Area Network
WFDC	Workforce Development Cabinet
WIC	Women, Infants, and Children
WMA	Wildlife Management Area

COMMONWEALTH OF KENTUCKY
GENERAL-PURPOSE FINANCIAL STATEMENTS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

Independent Auditor's Report

To the People of Kentucky
The Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet

We have audited the accompanying general-purpose financial statements of the Commonwealth of Kentucky as of and for the year ended June 30, 1996. These general-purpose financial statements are the responsibility of the Commonwealth's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We did not audit the financial statements of certain organizational units within the governmental fund types; the Kentucky Lottery Corporation, Workers' Compensation Special Fund, Petroleum Storage Tank Environmental Assurance Program, and Transportation Cabinet's Self-Insured Workers' Compensation Trust Program within the proprietary fund types; the Pension Trust Funds and the Transportation Cabinet's portion of the Agency Funds within the fiduciary fund types; and universities and colleges and certain other discretely presented component units. These organizational units represent total assets of 16, 73, 93, and 99.9 percent; total revenues/additions of 13, 73, 93, and 99.9 percent; and total expenditures/expenses/deductions of 15, 70, 76, and 99.9 percent, respectively, of the related combined totals of the governmental fund types, proprietary fund types, fiduciary fund types, and discretely presented component units. We also did not audit certain fixed assets which represent 19 percent of the General Fixed Assets Account Group. In addition, we did not audit certain long-term obligation accounts which comprise 44 percent of the total liabilities in the General Long-Term Obligations Account Group. These organizational unit financial statements and fixed asset and general long-term obligation accounts were audited by other auditors whose reports thereon were furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for the organizational units, the fixed assets, and the long-term obligations referenced above, is based solely on the reports of other auditors.

To the People of Kentucky
The Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet
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We conducted our audit in accordance with generally accepted government auditing standards except that a portion of the university and college discretely presented component units was audited in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general-purpose financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the general-purpose financial statements referenced above present fairly, in all material respects, the financial position of the Commonwealth of Kentucky as of June 30, 1996, and the results of its operations and the cash flows of its proprietary fund types and discretely presented component unit proprietary funds for the year then ended, in conformity with generally accepted accounting principles.

As disclosed in Note 17, the Commonwealth is involved in litigation concerning the exemption of certain state employees from overtime provisions of the Fair Labor Standards Act. The ultimate outcome of the litigation cannot be determined at this time. The Attorney General's office has indicated that probable payments could be significant; however, the amounts to be paid are not reasonably estimable. Therefore, except for a liability related to the initial plaintiffs, no provision for any liability that may result upon adjudication of this and similar cases has been made in the accompanying financial statements. As disclosed in Note 2, the Commonwealth implemented Governmental Accounting Standards Board (GASB) Statement 24 for the year ended June 30, 1996, which resulted in an increase of \$6,216,000 to the beginning fund balance in the Special Revenue Fund; the corresponding restricted asset was also recorded. As disclosed in Notes 2 and 8, the Kentucky Retirement System and Judicial Form Retirement System early implemented GASB Statement 25, and the Kentucky Retirement System early implemented GASB Statement 26, for the year ended June 30, 1996; this resulted in a net decrease in the Systems' beginning net assets held in trust for pensions and health insurance of \$45,126,000. Also, the Commonwealth early implemented GASB Statement 27 for these retirement systems. The Teachers' Retirement System is still reported in accordance with GASB Statement 5 requirements.

To the People of Kentucky
The Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet
Page 3

As disclosed in Note 12, there was a significant increase in the present value of the aggregate actuarially determined claims liability for the Kentucky Workers' Compensation Insurance Program during the year ended June 30, 1996. According to the latest actuarial report dated October 2, 1996, this increase arose from projection of additional incurred but not reported claims for the years ended June 30, 1995, and prior. Also as disclosed in Note 12, the actuarially determined claims liability decreased significantly for the Petroleum Storage Tank Environmental Assurance Program during the year ended June 30, 1996. According to the latest actuarial report dated February 12, 1996, this decrease was primarily the result of a decrease in the estimated number of incidents.

In accordance with generally accepted government auditing standards, we have also issued a report dated December 30, 1996, on our consideration of the Commonwealth of Kentucky's internal control structure and a report dated December 30, 1996, on its compliance with laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

December 30, 1996

COMMONWEALTH OF KENTUCKY
COMBINED BALANCE SHEET
ALL FUND TYPES, ACCOUNT GROUPS AND DISCRETELY PRESENTED COMPONENT UNITS
JUNE 30, 1996
(Expressed in Thousands)

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
ASSETS AND OTHER DEBITS				
CASH AND CASH EQUIVALENTS (NOTE 5)	\$ 280,954	\$ 387,878	\$ 47,829	\$ 32,215
CASH WITH FISCAL AGENTS			31,974	
CASH ON DEPOSIT WITH FEDERAL GOVERNMENT				
RESTRICTED CASH		6,000		
INVESTMENTS, NET OF AMORTIZATION (NOTE 5)	150,667	831,736	265,979	300,673
RECEIVABLES, NET (NOTE 1)	444,218	743,227	101,874	8,822
INTERFUND RECEIVABLES (NOTE 7)	128,491	160,736	345	3,894
INVENTORIES	11,776	30,709		
PREPAID EXPENSES				
DEFERRED CHARGES				
RESTRICTED ASSETS		89,432		
LAND				
IMPROVEMENTS OTHER THAN BUILDINGS				
BUILDINGS				
MACHINERY AND EQUIPMENT				
LESS ACCUMULATED DEPRECIATION				
CONSTRUCTION IN PROGRESS				
OTHER ASSETS				
AMOUNTS AVAILABLE FOR DEBT SERVICE				
AMOUNTS TO BE PROVIDED IN FUTURE YEARS FOR				
RETIREMENT OF GENERAL LONG-TERM OBLIGATIONS				
TOTAL ASSETS AND OTHERS DEBITS	\$ 1,016,106	\$ 2,249,718	\$ 448,001	\$ 345,604
LIABILITIES, EQUITY AND OTHER CREDITS				
LIABILITIES:				
ACCOUNTS PAYABLE	\$ 309,744	\$ 603,224	\$ 1,536	\$ 8,660
TAX REFUNDS PAYABLE	147,502			
ACCRUED LIABILITIES				
INTERFUND PAYABLES (NOTE 7)	37,377	238,014	26,822	794
CLAIMS LIABILITY				
CLAIMS ADJUSTMENT LIABILITIES				
CAPITAL LEASE OBLIGATIONS (NOTE 10)				
NOTES PAYABLE (NOTE 15)				
BONDS PAYABLE (NOTE 15)				
COMPENSATED ABSENCES (NOTE 1)				
AMOUNTS HELD IN CUSTODY FOR OTHERS				
DEPOSITS AND ADVANCE PAYMENTS				
DEFERRED REVENUE	58,092	193,007	100,530	16,240
OTHER LIABILITIES				
JUDGEMENTS AND CONTINGENCIES				
TOTAL LIABILITIES	552,715	1,034,245	128,888	25,694
EQUITY AND OTHER CREDITS:				
CONTRIBUTED CAPITAL (NOTE 1)				
INVESTMENT IN FIXED ASSETS (NOTE 1)				
RETAINED EARNINGS:				
RESERVED FOR:				
REVENUE BOND RETIREMENT				
UNRESERVED				
FUND BALANCE (NOTE 1)				
RESERVED FOR:				
ENCUMBRANCES		224,912		37,267
STATUTORY OBLIGATIONS	79,601	51,511		
CAPITAL OUTLAY				121,708
REVENUE BOND RETIREMENT		1,000	273,319	
EMPLOYEE RETIREMENT SYSTEM				
RETIREE'S HEALTH INSURANCE				
OTHER SPECIFIC PURPOSES (NOTE 1)	211,776	46,293		
UNRESERVED:				
DESIGNATED FOR HIGHWAY CONSTRUCTION		260,968		
DESIGNATED FOR DEBT SERVICE			45,794	
DESIGNATED FOR UNIVERSITIES AND COLLEGES				
UNDESIGNATED	172,014	630,789		160,935
TOTAL EQUITY AND OTHER CREDITS	463,391	1,215,473	319,113	319,910
TOTAL LIABILITIES, EQUITY AND OTHER CREDITS	\$ 1,016,106	\$ 2,249,718	\$ 448,001	\$ 345,604

THE ACCOMPANYING NOTES TO COMBINED FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals	Component	Totals
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	Primary Government (Memorandum Only)	Units	Reporting Entity (Memorandum Only)
\$ 159,524	\$ 14,893	\$ 1,784,294	\$	\$	\$ 2,707,587	\$ 627,698	\$ 3,335,285
		17,433			49,407		49,407
		485,612			485,612		485,612
					6,000	6,620	12,620
729,358	10,892	13,696,696			15,986,001	896,777	16,882,778
30,937	2,148	251,726			1,582,952	1,621,629	3,204,581
1,054	7,484	12,830			314,834	52,205	367,039
7,228	4,945				54,658	24,584	79,242
221	816	230			1,267	1,661	2,928
						19,729	19,729
					89,432	92,570	182,002
14,105	984		76,748		91,837	79,713	171,550
54,916	370				55,286	59,470	114,756
96,290	10,676	2,821	617,576		727,363	1,940,607	2,667,970
66,851	75,624		549,816		692,291	594,761	1,287,052
(132,664)	(69,189)				(201,853)	(107,276)	(309,129)
24,044			162,092		186,136	152,747	338,883
						240,841	240,841
				320,113	320,113		320,113
				3,571,612	3,571,612		3,571,612
\$ 1,051,864	\$ 59,643	\$ 16,251,642	\$ 1,406,232	\$ 3,891,725	\$ 26,720,535	\$ 6,304,336	\$ 33,024,871
\$ 17,020	\$ 5,516	\$ 423,767	\$	\$	\$ 1,369,467	\$ 128,497	\$ 1,497,964
					147,502		147,502
						57,019	57,019
5,521	3,634	3,139			315,301	51,738	367,039
1,575,295	69,269				1,644,564		1,644,564
69,931					69,931		69,931
315	6,316			925	7,556	107,455	115,011
500					500	1,992	2,492
				3,134,342	3,134,342	2,241,130	5,375,472
5,839	4,948			170,749	181,536	3,078	184,614
		542,847			542,847	8,286	551,133
						17,117	17,117
569	243	27,401			396,082	45,561	441,643
332,036		497		138,196	470,729	42,778	513,507
				447,513	447,513		447,513
2,007,026	89,926	997,651		3,891,725	8,727,870	2,704,651	11,432,521
63,808	758				64,566	96,190	160,756
			1,406,232		1,406,232	1,942,030	3,348,262
(1,018,970)	(31,041)				(1,050,011)	427,732	427,732
						137,943	(912,068)
					262,179	11,945	274,124
					131,112		131,112
					121,708	160,165	281,873
					274,319		274,319
		14,308,257			14,308,257		14,308,257
		382,220			382,220		382,220
					258,069	585,560	843,629
					260,968		260,968
					45,794		45,794
		563,514			1,527,252	238,280	1,527,092
						(160)	
(955,162)	(30,283)	15,253,991	1,406,232		17,992,665	3,599,685	21,592,350
\$ 1,051,864	\$ 59,643	\$ 16,251,642	\$ 1,406,232	\$ 3,891,725	\$ 26,720,535	\$ 6,304,336	\$ 33,024,871

COMMONWEALTH OF KENTUCKY
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES, EXPENDABLE TRUST FUNDS AND
DISCRETELY PRESENTED COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 1996
(Expressed in Thousands)

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
REVENUES (NOTE 1):				
TAXES	\$ 5,104,779	\$ 1,050,787	\$	\$
LICENSES, FEES, AND PERMITS	18,492	144,839		
INTERGOVERNMENTAL	4,691	3,356,680		33,517
CHARGES FOR SERVICES	3,942	269,455	423	
FINES AND FORFEITS	36,335	4,150		
INTEREST AND OTHER INVESTMENT INCOME	34,058	67,742	23,927	19,817
OTHER REVENUES	13,388	117,046	173	2,457
TOTAL REVENUES	5,215,685	5,010,699	24,523	55,791
EXPENDITURES:				
CURRENT:				
GENERAL GOVERNMENT	312,968	181,631		
LEGISLATIVE AND JUDICIAL	145,239	2,324		
COMMERCE	15,741	26,963		
EDUCATION AND HUMANITIES	2,430,095	532,354		
HUMAN RESOURCES	1,013,663	2,806,244		
JUSTICE	245,772	37,227		
NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION	45,267	50,827		
PUBLIC PROTECTION AND REGULATION	36,352	57,772		
TRANSPORTATION	4,766	1,056,823		
CAPITAL OUTLAY				79,245
DEBT SERVICE:				
PRINCIPAL RETIREMENT			217,140	
INTEREST AND FISCAL CHARGES			171,564	
OTHER EXPENDITURES			3,426	
TOTAL EXPENDITURES	4,249,863	4,752,165	392,130	79,245
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	965,822	258,534	(367,607)	(23,454)
OTHER FINANCING SOURCES (USES)				
OPERATING TRANSFERS IN	182,748	594,475	356,670	56,772
OPERATING TRANSFERS OUT	(342,529)	(702,676)	(28,016)	(46,831)
TRANSFERS FROM COMPONENT UNITS	2,997			
TRANSFERS TO COMPONENT UNITS	(749,644)	(62,466)		
PROCEEDS FROM SALE OF BONDS:				
NEW ISSUES			1,973	155,234
REFUNDING ISSUES (NOTE 13)			140,503	
PAYMENTS TO REFUNDED BOND ESCROW AGENTS			(142,038)	
CAPITALIZED LEASES	125	225		
TOTAL OTHER FINANCING SOURCES (USES)	(906,303)	(170,442)	329,092	165,175
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	59,519	88,092	(38,515)	141,721
FUND BALANCE AT JULY 1 (NOTE 2), AS RESTATED	404,681	1,129,530	357,628	178,189
INCREASE (DECREASE) IN INVENTORIES	(809)	(462)		
INCREASE (DECREASE) IN RESERVE FOR DEPOSIT WITH FISCAL AGENT		(1,687)		
FUND BALANCE AT JUNE 30	\$ 463,391	\$ 1,215,473	\$ 319,113	\$ 319,910

THE ACCOMPANYING NOTES TO COMBINED FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

Fiduciary Fund Type		Totals		Totals	
Expendable		Primary Government		Reporting Entity	
Trust		(Memorandum Only)		(Memorandum Only)	
				Units	
\$	231,143	\$	6,386,709	\$	6,386,709
	791		164,122		164,122
	17,286		3,412,174		3,412,174
	16		273,836		273,836
			40,485		40,485
	37,984		183,528		183,528
	5,131		138,195		138,195
	292,351		10,599,049		10,599,049
	13,496		508,095		508,095
	42		147,605		147,605
	9		42,713	2,356	45,069
	265,714		3,228,163		3,228,163
	2,160		3,822,067		3,822,067
			282,999		282,999
			96,094		96,094
	2		94,126		94,126
			1,061,589		1,061,589
			79,245		79,245
			217,140		217,140
			171,564		171,564
			3,426		3,426
	281,423		9,754,826	2,356	9,757,182
	10,928		844,223	(2,356)	841,867
	52,423		1,243,088		1,243,088
	(14,843)		(1,134,895)		(1,134,895)
			2,997	2,348	5,345
			(812,110)		(812,110)
			157,207		157,207
			140,503		140,503
			(142,038)		(142,038)
			350		350
	37,580		(544,898)	2,348	(542,550)
	48,508		299,325	(8)	299,317
	515,006		2,585,034	(152)	2,584,882
			(1,271)		(1,271)
			(1,687)		(1,687)
\$	563,514	\$	2,881,401	\$	2,881,241

COMMONWEALTH OF KENTUCKY
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES/FUND EQUITY
BUDGET AND ACTUAL (BUDGETARY BASIS) - ALL BUDGETED FUND TYPES (NOTE 4)
FOR THE YEAR ENDED JUNE 30, 1996
(Expressed in Thousands)

	General Fund			Special Revenue		
	Budget	Actual	Variance	Budget	Actual	Variance
REVENUES:						
BUDGETED:						
TAXES	\$ 5,043,202	\$ 5,087,752	\$ 44,550	\$ 784,960	\$ 790,182	\$ 5,222
LICENSES, FEES, AND PERMITS	19,055	18,491	(564)	92,098	93,283	1,185
INTERGOVERNMENTAL	4,410	4,692	282			
CHARGES FOR SERVICES	2,235	3,886	1,651	18,915	18,819	(96)
FINES AND FORFEITS	34,645	36,339	1,694	75	33	(42)
INTEREST AND OTHER INVESTMENT INCOME	25,600	30,398	4,798	28,200	33,941	5,741
LOTTERY PROCEEDS	132,000	147,000	15,000			
OTHER REVENUES	8,144	3,022	(5,122)	3,525	1,012	(2,513)
TRANSFERS IN	13,125	17,068	3,943			
TOTAL BUDGETED REVENUES	5,282,416	5,348,648	66,232	927,773	937,270	9,497
NON-BUDGETED:						
TAXES					208,173	
LICENSES, FEES, AND PERMITS					52,397	
INTERGOVERNMENTAL					2,912,513	
CHARGES FOR SERVICES					1,010,542	
FINES AND FORFEITS					2,384	
INTEREST AND OTHER INVESTMENT INCOME					43,897	
EMPLOYER CONTRIBUTIONS					74	
OTHER REVENUES		53	53		179,221	
ESCHEAT REVENUE		5,251	5,251			
TRANSFERS IN (INTERFUND)		30,203	30,203		289,748	
TRANSFERS IN (INTRAFUND)					654,341	
TOTAL NON-BUDGETED REVENUES		35,507	35,507		5,353,290	
TOTAL REVENUES	5,282,416	5,384,155	101,739		6,290,560	
EXPENDITURES:						
GENERAL GOVERNMENT	1,460,061	1,169,598	290,463	1,427,887	1,098,691	329,196
LEGISLATIVE AND JUDICIAL	154,167	145,137	9,030	4,569	2,240	2,329
COMMERCE	126,753	108,682	18,071	29,388	27,836	1,552
EDUCATION AND HUMANITIES	2,532,595	2,500,868	31,727	611,788	536,662	75,126
HUMAN RESOURCES	1,044,774	1,019,814	24,960	2,526,254	2,309,912	216,342
JUSTICE	255,454	252,723	2,731	94,091	81,026	13,065
NATURAL RESOURCES AND						
ENVIRONMENTAL PROTECTION	46,985	46,257	728	87,820	55,546	32,274
PUBLIC PROTECTION AND						
REGULATION	37,804	36,183	1,621	72,476	64,213	8,263
TRANSPORTATION	8,200	4,916	3,284	2,618,065	1,256,837	1,361,228
TOTAL EXPENDITURES	5,666,793	5,284,178	382,615	7,472,338	5,432,963	2,039,375
EXCESS OF REVENUES OVER						
(UNDER) EXPENDITURES	(384,377)	99,977	484,354		857,597	
OTHER FINANCING SOURCES (USES):						
TURNPIKE AUTHORITY				338	338	
HUMAN RESOURCES				3	3	
MOTOR POOL RECEIPTS					16,974	
TOTAL OTHER FINANCING SOURCES (USES)				341	17,315	
EXCESS OF REVENUES AND OTHER						
FINANCING SOURCES OVER (UNDER)						
EXPENDITURES AND OTHER						
FINANCING USES	(384,377)	99,977	484,354		874,912	
FUND BALANCE/FUND EQUITY AT JULY 1	404,864	404,864			1,419,228	
NON-BUDGETED ITEMS		(1,813)	(1,813)		(878,584)	
FUND BALANCE/FUND EQUITY AT JUNE 30	\$ 20,487	\$ 503,028	\$ 482,541	\$	\$ 1,415,556	\$

THE ACCOMPANYING NOTES TO COMBINED FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

Enterprise			Internal Service			Expendable Trust		
Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
\$	\$	\$	\$	\$	\$	\$	\$	\$
	160			274				
	181,375			1			17,815	
	803			97,693			14	
	6,512			452			40,241	
	23,058			5,329			231,889	
	40,784			356			2,211	
	250,452			407			1,741	
	503,144			104,512			293,911	
	503,144			104,512			293,911	
7,792	5,016	2,776	90,589	86,632	3,957			
47,060	43,403	3,657						
1,786	1,526	260				333,958	256,504	77,454
			10,898	10,581	317			
15,924	14,515	1,409						
371,019	311,465	59,554	490	423	67			
443,581	375,925	67,656	101,977	97,636	4,341	333,958	256,504	77,454
	127,219			6,876			37,407	
	127,219			6,876			37,407	
	222,165			45,953			448,205	
	(99,544)			(5,731)				
\$	\$ 249,840	\$	\$	\$ 47,098	\$	\$	\$ 485,612	\$

COMMONWEALTH OF KENTUCKY
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES/FUND EQUITY
BUDGET AND ACTUAL (BUDGETARY BASIS) - ALL BUDGETED FUND TYPES (NOTE 4)
FOR THE YEAR ENDED JUNE 30, 1996
(Expressed in Thousands)

	Component Units		
	Budget	Actual	Variance
REVENUES:			
BUDGETED:			
TAXES	\$	\$	\$
LICENSES, FEES, AND PERMITS			
INTERGOVERNMENTAL			
CHARGES FOR SERVICES			
FINES AND FORFEITS			
INTEREST AND OTHER INVESTMENT INCOME			
LOTTERY PROCEEDS			
OTHER REVENUES			
TRANSFERS IN			
TOTAL BUDGETED REVENUES			
NON-BUDGETED:			
TAXES			
LICENSES, FEES, AND PERMITS			
INTERGOVERNMENTAL			
CHARGES FOR SERVICES		23,139	
FINES AND FORFEITS			
INTEREST AND OTHER INVESTMENT			
EMPLOYER CONTRIBUTIONS			
OTHER REVENUES		200	
ESCHEAT REVENUE			
TRANSFERS IN (INTERFUND)		14	
TRANSFERS IN (INTRAFUND)		642	
TOTAL NON-BUDGETED REVENUES		23,995	
TOTAL REVENUES		23,995	
EXPENDITURES:			
GENERAL GOVERNMENT			
LEGISLATIVE AND JUDICIAL			
COMMERCE	21,545	21,544	1
EDUCATION AND HUMANITIES			
HUMAN RESOURCES			
JUSTICE			
NATURAL RESOURCES AND			
ENVIRONMENTAL PROTECTION			
PUBLIC PROTECTION AND			
REGULATION			
TRANSPORTATION			
TOTAL EXPENDITURES	21,545	21,544	1
EXCESS OF REVENUES OVER			
(UNDER) EXPENDITURES		2,451	
OTHER FINANCING SOURCES (USES):			
TURNPIKE AUTHORITY			
HUMAN RESOURCES			
MOTOR POOL RECEIPTS			
TOTAL OTHER FINANCING SOURCES (USES)			
EXCESS OF REVENUES AND OTHER			
FINANCING SOURCES OVER (UNDER)			
EXPENDITURES AND OTHER			
FINANCING USES		2,451	
FUND BALANCES/FUND EQUITY AT JULY 1		90,832	
NON-BUDGETED ITEMS		(2,345)	
FUND BALANCES/FUND EQUITY AT JUNE 30	\$	\$ 90,938	\$

THE ACCOMPANYING NOTES TO COMBINED FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

COMMONWEALTH OF KENTUCKY
COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS/FUND BALANCES
ALL PROPRIETARY FUND TYPES, SIMILAR TRUST FUNDS AND DISCRETELY PRESENTED COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 1996

(Expressed in Thousands)

	Proprietary Fund Types		Fiduciary Fund Types	Totals Primary Government	Component Units	Totals Reporting Entity
	Enterprise	Internal Service	Pension Trust	(Memorandum Only)		(Memorandum Only)
OPERATING REVENUES:						
CHARGES FOR SERVICES	\$ 329,654	\$ 109,084	\$	\$ 438,738	\$ 41,871	\$ 480,609
CONTRIBUTIONS			509,002	509,002		509,002
INTEREST AND OTHER INVESTMENT INCOME	38,522		775,807	814,329	128,590	942,919
LOTTERY PROCEEDS	542,845			542,845		542,845
AMORTIZATION OF PREMIUM ON LEASES					96	96
OTHER REVENUES	2,763	941		3,704	47,650	51,354
TOTAL OPERATING REVENUES	913,784	110,025	1,284,809	2,308,618	218,207	2,526,825
OPERATING EXPENSES:						
PERSONAL SERVICES	73,479	36,487		109,966	39,308	149,274
UTILITIES, RENTALS, AND OTHER SERVICES	14,415	20,764		35,179	16,081	51,260
COMMODITIES AND SUPPLIES	34,858	24,775		59,633	2,474	62,107
ADMINISTRATIVE EXPENSES			6,589	6,589		6,589
GRANTS AND SUBSIDIES	100	668		768	33,067	33,835
DEPRECIATION AND AMORTIZATION	10,132	5,746	61,607	77,485	13,012	90,497
BENEFITS			388,760	388,760		388,760
REFUND OF CONTRIBUTIONS			8,418	8,418		8,418
INTEREST					84,828	84,828
TRAVEL	1,347	208		1,555	629	2,184
REINSURANCE EXPENSE		888		888		888
CLAIMS EXPENSE	498,330	27,711		526,041	277	526,318
CLAIMS ADJUSTMENT EXPENSE	5,823			5,823		5,823
PRIZE EXPENSE	313,434			313,434		313,434
OTHER EXPENSES	62,625		220	62,845	24,739	87,584
TOTAL OPERATING EXPENSES	1,014,543	117,247	465,594	1,597,384	214,415	1,811,799
OPERATING INCOME (LOSS)	(100,759)	(7,222)	819,215	711,234	3,792	715,026
NONOPERATING REVENUE (EXPENSES):						
INTERGOVERNMENTAL REVENUE					1,359	1,359
GRANTS AND DONATIONS					4,693	4,693
MEMBERSHIP REVENUE					299	299
KENTUCKY CENTER FOR THE ARTS ENDOWMENT					549	549
GAIN (LOSS) ON SALE OF FIXED ASSETS	(12)	(174)		(186)	(19)	(205)
INTEREST AND OTHER INVESTMENT INCOME	5,736	4		5,740	670	6,410
CHANGE IN ACTUARIAL ESTIMATE	60,103			60,103		60,103
INTEREST EXPENSE	(74)	(331)		(405)	(3,378)	(3,783)
OTHER REVENUES (EXPENSES)	6			6	(2,467)	(2,461)
TOTAL NONOPERATING REVENUES (EXPENSES)	65,759	(501)		65,258	1,706	66,964
INCOME (LOSS) BEFORE OPERATING TRANSFERS AND EXTRAORDINARY ITEMS	(35,000)	(7,723)	819,215	776,492	5,498	781,990
OPERATING TRANSFERS IN	44,159	3,365		47,524		47,524
TRANSFERS FROM PRIMARY GOVERNMENT					56,287	56,287
TRANSFERS FROM COMPONENT UNITS					1,500	1,500
OPERATING TRANSFERS OUT	(152,096)	(3,621)		(155,717)		(155,717)
TRANSFERS TO PRIMARY GOVERNMENT					(881)	(881)
TRANSFERS TO COMPONENT UNITS					(1,500)	(1,500)
NET INCOME (LOSS)	(142,937)	(7,979)	819,215	668,299	60,904	729,203
ADD DEPRECIATION ON FIXED ASSETS ACQUIRED BY CAPITAL GRANTS	1,647	70		1,717	4,920	6,637
INCREASE (DECREASE) IN RETAINED EARNINGS/FUND BALANCES	(141,290)	(7,909)	819,215	670,016	65,824	735,840
RETAINED EARNINGS/FUND BALANCES AT JULY 1 (NOTE 2), AS RESTATED	(877,680)	(23,132)	6,235,679	5,334,867	499,851	5,834,718
RETAINED EARNINGS/FUND BALANCES AT JUNE 30	<u>\$ (1,018,970)</u>	<u>\$ (31,041)</u>	<u>\$ 7,054,894</u>	<u>\$ 6,004,883</u>	<u>\$ 565,675</u>	<u>\$ 6,570,558</u>

THE ACCOMPANYING NOTES TO COMBINED FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

COMMONWEALTH OF KENTUCKY
COMBINED STATEMENT OF CHANGES IN PLAN ASSETS
PENSION TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 1996
(Expressed in Thousands)

	Pension Benefits	Health Insurance	Totals (Memorandum Only)
Additions:			
Contributions:			
Employer	\$ 258,111	\$ 84,841	\$ 342,952
Member	145,068		145,068
Total contributions	403,179	84,841	488,020
Appropriation for Administrative Expense	301		301
Investment Income			
Net Appreciation (Depreciation) in Fair Value of Investments	2,069,817	34,996	2,104,813
Interest	155,276	16,600	171,876
Dividends	97,356	2,284	99,640
Income - Real Estate	20,146	616	20,762
Total Investment Income	2,342,595	54,496	2,397,091
Less: Investment Expense	24,641	2,107	26,748
Net Investment Income	2,317,954	52,389	2,370,343
Total Additions	2,721,434	137,230	2,858,664
Deductions:			
Benefit Payments	287,811	35,521	323,332
Refunds	16,705		16,705
Administrative Expense	5,730		5,730
Other Deductions (Net)	85,057		85,057
Total Deductions	395,303	35,521	430,824
Net Increase	2,326,131	101,709	2,427,840
Net Assets Held In Trust for Pension Benefits			
Beginning of Year	4,978,923	273,946	5,252,869
Adjustments to Net Assets	(51,691)	6,565	(45,126)
End of Year	\$ 7,253,363	\$ 382,220	\$ 7,635,583

THE ACCOMPANYING NOTES TO COMBINED FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

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COMMONWEALTH OF KENTUCKY
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 1996
(Expressed in Thousands)

	Proprietary Fund Types		Totals Primary Government (Memorandum Only)	Component Units	Totals Reporting Entity (Memorandum Only)
	Enterprise	Internal Service			
CASH FLOWS FROM OPERATING ACTIVITIES:					
CASH RECEIVED FROM CUSTOMERS - PUBLIC	\$ 839,276	\$ 33,459	\$ 872,735	\$ 88,325	\$ 961,060
CASH RECEIVED FROM CUSTOMERS - STATE	41,778	74,260	116,038		116,038
COLLECTION OF PROGRAM LOANS				242,697	242,697
PROGRAM LOANS ISSUED				(156,999)	(156,999)
CASH PAYMENTS TO SUPPLIERS FOR GOODS AND SERVICES	(370,387)	(49,492)	(419,879)	(125,817)	(545,696)
CASH PAYMENTS FOR EMPLOYEE SALARIES AND BENEFITS	(77,290)	(36,066)	(113,356)	(37,101)	(150,457)
CASH PAYMENTS FOR CLAIMS EXPENSE	(288,269)	(17,035)	(305,304)		(305,304)
CASH PAYMENTS (TO) FROM OTHER SOURCES	(4,578)	9	(4,569)		(4,569)
NET CASH PROVIDED BY OPERATING ACTIVITIES	140,530	5,135	145,665	11,105	156,770
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
PROCEEDS FROM BOND ISSUANCE				162,184	162,184
PROCEEDS FROM SALE OF REVENUE BONDS FOR COST OF ISSUANCE				(267)	(267)
PRINCIPAL PAYMENT ON DEBT				(88,497)	(88,497)
DEBT RELATED EXPENSES				(66,531)	(66,531)
SUBSIDIES				46,842	46,842
NONOPERATING FEES	349		349		349
OPERATING TRANSFERS-IN FROM OTHER FUNDS	57,977	3,565	61,542	49,343	110,885
OPERATING TRANSFERS-OUT TO OTHER FUNDS	(155,096)	(3,548)	(158,644)	(2,269)	(160,913)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	(96,770)	17	(96,753)	100,805	4,052
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
ACQUISITION AND CONSTRUCTION OF CAPITAL ASSETS	(5,451)	(2,144)	(7,595)	(8,660)	(16,255)
PRINCIPAL PAID ON REVENUE BOND MATURITIES AND EQUIPMENT CONTRACTS	(2,000)	(4,164)	(6,164)	(4,264)	(10,428)
INCREASE IN RESTRICTED ASSET-CONSTRUCTION ACCOUNT				(23,509)	(23,509)
RESTRICTED INCOME-CONSTRUCTION				300	300
INTEREST PAID ON REVENUE BOND AND EQUIPMENT CONTRACTS	(48)		(48)	(3,342)	(3,390)
PROCEEDS FROM SALE OF EQUIPMENT	327	252	579	4	583
CONTRIBUTED CAPITAL				27,607	27,607
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(7,172)	(6,056)	(13,228)	(11,864)	(25,092)
CASH FLOWS FROM INVESTING ACTIVITIES:					
PURCHASE OF INVESTMENT SECURITIES	(1,114,343)	(4,941)	(1,119,284)	(1,131,089)	(2,250,373)
PROCEEDS FROM SALE AND MATURITIES OF INVESTMENT SECURITIES	1,079,591		1,079,591	1,271,245	2,350,836
INTEREST AND DIVIDENDS ON INVESTMENTS	34,826	463	35,289	41,923	77,212
NET CASH USED IN INVESTING ACTIVITIES	74	(4,478)	(4,404)	182,079	177,675
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	36,662	(5,382)	31,280	282,125	313,405
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	122,862	20,275	143,137	78,841	221,978
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 159,524	\$ 14,893	\$ 174,417	\$ 360,966	\$ 535,383

	Proprietary Fund Types		Totals Primary Government (Memorandum Only)	Component Units	Totals Reporting Entity (Memorandum Only)
	Enterprise	Internal Service			
RECONCILIATION OF OPERATING INCOME TO NET CASH					
PROVIDED BY OPERATING ACTIVITIES:					
OPERATING INCOME (LOSS)	\$ (100,759)	\$ (7,494)	\$ (108,253)	\$ 3,792	\$ (104,461)
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:					
DEPRECIATION AND AMORTIZATION	10,132	5,746	15,878	12,916	28,794
INTEREST AND OTHER INVESTMENT INCOME	(39,028)	(442)	(39,470)	(9,956)	(49,426)
SUBSIDIES				(32,988)	(32,988)
INTEREST EXPENSE				13,816	13,816
MISCELLANEOUS NONOPERATING INCOME (EXPENSES)	60,113	(335)	59,778	7,310	67,088
CHANGE IN ASSETS AND LIABILITIES:					
(INCREASE) DECREASE IN RECEIVABLES, NET	(3,224)	20	(3,204)	10,440	7,236
(INCREASE) DECREASE IN INTERFUND RECEIVABLES	103	325	428		428
(INCREASE) DECREASE IN INVENTORIES	(636)	(54)	(690)	88	(602)
(INCREASE) DECREASE IN PREPAID EXPENSES	(46)	(95)	(141)	(80)	(221)
(INCREASE) DECREASE IN OTHER ASSETS	128		128	(4,412)	(4,284)
INCREASE (DECREASE) IN ACCOUNTS PAYABLE	48,793	(143)	48,650	6,892	55,542
INCREASE (DECREASE) IN INTERFUND PAYABLES	1,888	(1,209)	679	(9)	670
INCREASE (DECREASE) IN CLAIMS LIABILITY	163,528	8,617	172,145		172,145
INCREASE (DECREASE) IN CLAIMS ADJUSTMENT LIABILITY	6,927		6,927		6,927
INCREASE (DECREASE) IN COMPENSATED ABSENCES	353	308	661	833	1,494
INCREASE (DECREASE) IN OTHER LIABILITIES	41		41	998	1,039
INCREASE (DECREASE) IN DEFERRED REVENUE	(7,783)	(109)	(7,892)	1,465	(6,427)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 140,530</u>	<u>\$ 5,135</u>	<u>\$ 145,665</u>	<u>\$ 11,105</u>	<u>\$ 156,770</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS, JUNE 30, 1996

	Component Units
PER COMBINED BALANCE SHEET	\$ 627,698
RESTRICTED CASH	6,620
LESS: UNIVERSITIES	(266,732)
CASH AND CASH EQUIVALENTS FOR PROPRIETARY COMPONENT UNITS	<u>\$ 367,586</u>

THE PROPRIETARY FUND ACQUIRED ASSETS OF \$22,323(000) THROUGH NON-CASH TRANSACTIONS. CONTRIBUTED CAPITAL TOTALED \$19,275,(000). CAPITAL LEASES TOTALED \$3,048,(000). PAYMENTS FOR PRINCIPAL AND INTEREST FOR THE YEAR WERE \$534,(000) AND \$15,(000), RESPECTIVELY. GRAND PRIZE INVESTMENTS AND THE RELATED PRIZE LIABILITY WERE INCREASED DURING THE YEAR BY APPROXIMATELY \$16,553,(000) ACCRETION OF INTEREST.

THE ACCOMPANYING NOTES TO COMBINED FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

COMMONWEALTH OF KENTUCKY
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND OTHER CHANGES
ALL UNIVERSITY AND COLLEGE CURRENT FUNDS
FOR THE YEAR ENDED JUNE 30, 1996
(Expressed in Thousands)

	Totals June 30, 1996
REVENUES:	
TUITION AND FEES	\$ 319,913
FEDERAL GRANTS AND CONTRACTS	136,265
STATE/LOCAL GRANTS AND CONTRACTS	30,888
PRIVATE GIFTS, GRANTS AND CONTRACTS	28,822
ENDOWMENT INCOME	4,512
SALES AND SERVICES OF EDUCATION ACTIVITIES	44,840
SALES AND SERVICES OF AUXILIARY ENTERPRISES AND HOSPITALS	352,634
OTHER REVENUES	140,834
TOTAL CURRENT REVENUES	1,058,708
EXPENDITURES AND TRANSFERS:	
EDUCATIONAL AND GENERAL:	
INSTRUCTION	517,654
RESEARCH	79,720
PUBLIC SERVICE	140,443
ACADEMIC SUPPORT	92,894
LIBRARIES	46,752
STUDENT SERVICES	70,650
INSTITUTIONAL SUPPORT	110,810
STUDENT FINANCIAL AID	142,629
MAINTENANCE AND OPERATION	101,570
OTHER EXPENDITURES	463
TOTAL EDUCATIONAL AND GENERAL EXPENDITURES	1,303,585
MANDATORY TRANSFERS FOR:	
PRINCIPAL AND INTEREST	66,824
LOAN FUND	275
UNEXPENDED PLANT FUND	1,374
RETIREMENT OF INDEBTEDNESS	120
NON-MANDATORY TRANSFERS FOR:	
CURRENT FUND - UNRESTRICTED	(25,804)
CURRENT FUND - RESTRICTED	(3,256)
LOAN FUND	20
ENDOWMENT AND SIMILAR FUNDS	141
UNEXPENDED PLANT FUND	31,829
RETIREMENT OF INDEBTEDNESS	716
RENEWAL AND REPLACEMENT	1,225
TOTAL EDUCATIONAL AND GENERAL	1,377,049
AUXILIARY ENTERPRISES AND HOSPITALS:	
EXPENDITURES	325,095
MANDATORY TRANSFERS FOR:	
PRINCIPAL AND INTEREST	12,582
RENEWAL AND REPLACEMENT	81
RETIREMENT OF INDEBTEDNESS	1,117
NON-MANDATORY TRANSFERS FOR:	
CURRENT FUND - UNRESTRICTED	13,046
AUXILIARY ENTERPRISES AND HOSPITALS - UNRESTRICTED	
FOUNDATIONS	
UNEXPENDED PLANT FUND	2,830
RENEWAL AND REPLACEMENT	40,644
TOTAL AUXILIARY ENTERPRISES AND HOSPITALS	395,395
TOTAL EXPENDITURES AND TRANSFERS	1,772,444
OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS):	
TRANSFERS FROM PRIMARY GOVERNMENT	709,478
TRANSFERS TO PRIMARY GOVERNMENT	(4,260)
EXCESS OF RESTRICTED RECEIPTS OVER TRANSFERS TO REVENUE	12,116
INDIRECT COST RECOVERED	5,264
REFUNDS TO GRANTORS	(202)
OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS)	(301)
NET INCREASE (DECREASE) IN FUND BALANCE	\$ 8,359

THE ACCOMPANYING NOTES TO COMBINED FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

COMMONWEALTH OF KENTUCKY
COMBINED STATEMENT OF CHANGES IN FUND BALANCES
ALL UNIVERSITY AND COLLEGE FUNDS
FOR THE YEAR ENDED JUNE 30, 1996
(Expressed in Thousands)

	Totals
	June 30, 1996
REVENUES AND OTHER ADDITIONS:	
EDUCATIONAL AND GENERAL REVENUES	\$ 514,145
AUXILIARY ENTERPRISES AND HOSPITALS REVENUES	352,907
INDIRECT COST RECOVERED	4,780
RESTRICTED GRANTS AND CONTRACTS	287,415
RESTRICTED GIFTS AND GRANTS	53,173
ENDOWMENT INCOME	4,539
INTEREST AND OTHER INVESTMENT INCOME	27,252
EXPENDED FOR PLANT FACILITIES	118,688
RETIREMENT OF INDEBTEDNESS	52,878
OTHER REVENUE AND ADDITIONS	108,479
TOTAL REVENUES AND OTHER ADDITIONS	1,524,256
EXPENDITURES AND OTHER DEDUCTIONS:	
EDUCATIONAL AND GENERAL EXPENDITURES	1,302,833
AUXILIARY ENTERPRISES AND HOSPITALS EXPENDITURES	325,095
REFUNDS TO GRANTORS	147
ADMINISTRATIVE, COLLECTION, AND LITIGATION COSTS	543
LOAN CANCELLATIONS	970
PAYMENT TO BENEFICIARIES	558
EXPENDED FOR PLANT FACILITIES	78,363
RETIREMENT OF INDEBTEDNESS	52,912
INTEREST PAYMENTS	46,564
DISPOSAL OF PLANT FACILITIES	49,546
NOTES ISSUED	5,908
OTHER EXPENDITURES	151,274
TOTAL EXPENDITURES AND OTHER DEDUCTIONS	2,014,713
TRANSFERS AMONG FUNDS - ADDITIONS (DEDUCTIONS):	
NON-MANDATORY TRANSFERS FOR:	
TRANSFERS FROM PRIMARY GOVERNMENT	755,823
TRANSFERS TO PRIMARY GOVERNMENT	(4,464)
TOTAL TRANSFERS AMONG FUNDS	751,359
INCREASE (DECREASE) IN FUND BALANCE	260,902
FUND BALANCE AT JULY 1, (NOTE 2) AS RESTATED	2,677,078
FUND BALANCE AT JUNE 30	\$ 2,937,980

THE ACCOMPANYING NOTES TO COMBINED FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

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Note 1

SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation - The accompanying financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The financial statements for the University and College Funds have been prepared in conformity with generally accepted accounting principles as prescribed by the AICPA Audit Guide, Audits of Colleges and Universities.

B. Financial Reporting Entity - For financial reporting purposes, the Commonwealth of Kentucky includes all fund types, account groups, departments, and agencies of the Commonwealth, as well as boards, commissions, authorities, corporations, colleges, and universities. These organizational entities comprise the reporting entity of the Commonwealth and are reported in accordance with GASB 14. Consequently, the reporting entity includes organizations that are not legally separate from the primary government and those which are legally separate. Organizations, not legally separate, are reported as part of the primary government. Legally separate organizations are reported as component units if either, the Commonwealth is financially accountable or whose exclusion would cause the Commonwealth's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services almost entirely or exclusively to the primary government or their governing body is substantively the same as the governing body for the primary government. All other component units are discretely presented.

Audited financial statements are available for the following blended component units: Kentucky Lottery Corporation and the Kentucky Turnpike Authority. Audited financial statements are available for all discretely presented component units except the Agricultural Finance Authority and the Kentucky Grain Insurance Corporation. (See page 77 for complete list of component units' addresses.)

Blended Component Units

The following legally separate organizations provide services entirely, or almost entirely to the State or otherwise exclusively, or almost exclusively, that benefit the State, and therefore, these organizations' balances and transactions are reported as though they were part of the State's primary government using the blending method.

State Property and Buildings Commission (KRS 56.450)

This commission is a public body corporate created to issue all revenue bonds for state agencies, unless those agencies are specifi-

cally authorized by other provisions of the Kentucky Revised Statutes to issue bonds. The commission is composed of six ex officio members.

Kentucky River Authority (KRS 151.710)

The Kentucky River Authority possesses the corporate powers that would distinguish it as being legally separate from the Commonwealth. This authority's sole purpose is the maintenance of the Commonwealth's locks and dams on the Kentucky River. The Governor appoints the ten members of this authority.

Kentucky Lottery Corporation (KRS 154A.020)

The Kentucky Lottery Corporation is empowered by the Legislature to administer the Kentucky state lottery games. The board of directors is comprised of seven members appointed by the Governor with the advice and consent of the Senate.

School Facilities Construction Commission (KRS 157.617)

The commission is an independent corporate agency and instrumentality of the Commonwealth. The purpose of the Commission is to assist local school districts in meeting the school construction needs of the Commonwealth in a manner which will ensure an equitable distribution of funds based upon unmet needs. One ex officio member and eight members appointed by the Governor comprise the Commission. The Commission was audited in conjunction with the Commonwealth's financial statements.

Turnpike Authority of Kentucky (KRS 175.430)

The Turnpike Authority is a body corporate and politic created solely to perform essential governmental functions and to serve the public purposes of constructing, acquiring, financing, and operating turnpike and other road projects for the use, safety, convenience and general welfare of the traveling public, by leasing such projects to the Transportation Cabinet. The seven members of the authority are all ex officio members, including the Governor.

Board of Agriculture (KRS 246.120)

The board is a body corporate created to act as an advisory board to the Commissioner of Agriculture and aid him in the collection of information concerning crops and in the promulgation of industrial information and act as an immigration committee. The board consists of nine members, two ex officio members and seven citizens of the Commonwealth appointed by the Governor.

Kentucky Savings Bond Authority (KRS 293.030)

The authority is a body corporate and politic created to promote investment by the general public in bonds of the Commonwealth

and to reduce interest costs to the Commonwealth or its agencies. The authority consists of seven commissioners, three ex officio members and four members appointed by the Governor.

State Board of Physical Therapy (KRS 327.030)

The board is a body created to enforce the statutes relating to the licensing and regulation of physical therapists. The board has the power to institute criminal proceedings in the name of the Commonwealth against violators of statutes pertaining to physical therapists. The board consists of five members appointed by the governor.

Discretely Presented Component Units

The component units' columns in the combined financial statements include the data of the following organizations. They are reported in a separate discrete column that is labeled as "Component Units" to emphasize these organizations' separateness from the State's primary government.

Bluegrass State Skills Corporation (KRS 154.12-205)

This corporation was created and established to improve and promote the employment opportunities of the citizens of the Commonwealth by assisting the Economic Development Cabinet in creating and expanding programs of skills training and education. The board of directors consists of eighteen members, five ex officio members and thirteen members appointed by the Governor.

Kentucky State Fair Board (KRS 247.090)

This board is a body corporate created to account for revenues earned and expenses incurred in the commercial operations of the State Fair Board. Twelve members compose the board, 3 ex officio members, the other nine appointed by the Governor.

Kentucky Center for the Arts Corporation (KRS 153.410)

The Center for the Arts is a body corporate created by the General Assembly to promote the growth and development of the arts, convention trade, tourism and hotel industries within Jefferson County and the Commonwealth. The board consists of fifteen members appointed by the Governor.

Kentucky Educational Television Authority (KRS 168.030)

KET is a public body corporate and politic created to prescribe and enforce regulations governing the use of educational television and television facilities and related functions. KET also produces and transmits educational television programs. The authority consists of nine members, five being appointed by the Governor. A component unit of KET is the Kentucky Educational Television Foundation. The foundation is a non-profit Kentucky corporation, which receives, holds and administers gifts and grants in the name of and with the approval of the authority.

Kentucky Economic Development Finance Authority (KRS 154.20-010)

KEDFA possesses the corporate powers necessary to distinguish it as being legally separate from the Commonwealth and was established to assist business enterprises in obtaining financial resources in order to promote the Commonwealth's long-term economic growth. The Kentucky Economic Development Partnership board appoints the five members of this authority. Additionally, other component units of the authority include: The Commonwealth Small Business Development Corporation, the Kentucky Industrial Development Authority, the Kentucky Industrial Revitalization Authority, Kentucky JOBS Development Authority, and the Kentucky Mortgage Insurance and Guarantee Corporation. The financial statements of the component units have been combined with those of the authority.

Kentucky Higher Education Assistance Authority (KRS 164.742)

This authority is a body corporate and politic created to improve the higher education opportunities of persons who are attending or planning to attend eligible institutions, and by insuring eligible student loans.

Kentucky Higher Education Student Loan Corporation (KRS 164A.050)

KHESLC is a body corporate and public created to perform essential governmental and public functions and purposes in improving and promoting the education opportunities of the citizens of the Commonwealth. The board of directors consists of seven members, three ex officio members and four members appointed by the Governor.

Kentucky Educational Savings Plan Trust (KRS 164A.310)

This trust was established to encourage citizens to invest funds for future educational use, and to create an endowment fund, the income from which will be available to participants' savings.

Kentucky Housing Corporation (KRS 198A.030)

The Housing Corporation is a body corporate and public created to perform essential governmental and public functions in improving and promoting the health and welfare of the citizens of the Commonwealth by the production of residential housing in Kentucky. The board of directors consists of six ex officio members and eight members appointed by the Governor.

Kentucky Infrastructure Authority (KRS 224A.030)

The authority is a body corporate and politic created solely to perform essential governmental functions and to serve the public

agencies in the Commonwealth with respect to the construction and acquisition of infrastructure projects. The board consists of five ex officio members and three members appointed by the Governor.

Kentucky Agricultural Finance Corporation (KRS 247.944)

KAFC is a corporation created to improve and promote the health and general welfare of the people through the promotion of agriculture. The board of directors consists of three ex officio members and nine members appointed by the Governor.

Kentucky Grain Insurance Corporation (KRS 251.620)

KGIC is a body politic created to promote the state's welfare by improving the economic stability of agriculture and protecting grain producers in the event of the financial failure of a grain dealer or warehousemen. The board of directors consists of four ex officio members and six members appointed by the Commissioner of the Department of Agriculture.

Kentucky Local Correctional Facilities Construction Authority (KRS 441.615)

This authority is a body corporate and politic created to provide an additional and alternative method of constructing, reconstructing, improving or repairing and financing jails and appurtenant facilities for any local government in the Commonwealth. The membership consists of six ex officio members and four members appointed by the Governor.

State Colleges and Universities (KRS 164.350)

Each board of regents or board of trustees are appointed by the Governor, and constitute a body corporate with the power to receive and administer revenue and property.

C. Fund Structure and Basis of Accounting - Primary Government - The accompanying financial statements are structured into three fund categories and two account groups. The fund categories include governmental funds, proprietary funds and fiduciary funds. Account groups are presented for general fixed assets and general long-term obligations.

Governmental Funds include:

General Fund - accounts for financial resources appropriated by the General Assembly which are not required to be accounted for in another fund.

Special Revenue Funds - account for specific revenue sources, other than for expendable trusts or major capital projects, dedicated to specific operations.

Debt Service Fund - accounts for the accumulation of resources for, and the payment of, general long-term obligation principal, interest, and related administrative costs.

Capital Projects Fund - accounts for financial resources appropriated by the General Assembly for the acquisition, construction, or renovation of major capital facilities, and for the acquisition of major equipment, other than those financed by proprietary funds and certain trust funds.

All of the governmental funds (where the measurement focus is on the flow of current financial resources) are accounted for on the modified accrual basis of accounting. In accordance with the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the fiscal period. Available revenue will be received within 30 days. Principal revenue sources accounted for on the modified accrual basis include federal grants, sales and use tax, coal severance tax, property tax, departmental fees, income taxes, and interest income. Motor vehicle registration fees and fines and forfeitures are accounted for on the cash basis. Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levies (mailed) September 15, due at discount November 1, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale February 1 following the delinquency date. Expenditures are recorded at the time liabilities are incurred except: (1) inventories generally are considered expenditures at acquisition; (2) prepayments usually are accounted for as expenditures of the period of acquisition; (3) principal and interest on long-term debt are recorded when paid; and (4) compensated absences are accounted for as expenditures of the period when used. Encumbrances represented by executed and unperformed contracts, which have been approved by the Finance and Administration Cabinet, at year end are reported as reservations of fund balance for subsequent year expenditure in the Capital Projects and Transportation Funds. Encumbrances in all other funds lapse at the end of the fiscal year.

Proprietary Funds:

The State has adopted the provisions of GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Funds that use Proprietary Fund Accounting." As permitted by GASB Statement No. 20, the primary government's proprietary funds have elected not to adopt FASB Statements or Interpretations issued after November 30, 1989, unless the GASB specifically adopts such FASB Statements or Interpretations. Each proprietary component unit has individually made this election as disclosed in their separate audit reports.

Enterprise Funds - account for those public corporations empowered by the Kentucky Revised Statutes (KRS) to provide certain services to the citizens of Kentucky and the operation of State

agencies that provide goods or services to the general public on a user charge basis. Also included are the operations of the State's risk management pools.

Internal Service Funds - account for financing goods and services provided by one agency of the Commonwealth primarily to other agencies or governments on a cost reimbursement basis.

All of the proprietary funds (where the measurement focus is on the flow of economic resources) are accounted for on the accrual basis of accounting. Accordingly, revenues are recognized when they are earned and become measurable. Expenses are recognized at the time liabilities are incurred.

Fiduciary Funds include:

Expendable Trust Funds - account for assets held by the Commonwealth as a legal trustee when both principal and interest may be expended for designated purposes.

Pension Trust Funds - account for monies received for, expenses incurred by, and net assets available for plan benefits of the various public employee retirement systems.

Agency Funds - account for monies held by the Commonwealth and deferred compensation plans for custodial purposes only.

Expendable Trust and Agency Funds are accounted for on the modified accrual basis of accounting and are reported in the same manner as governmental fund types. Pension Trust Funds are accounted for on the accrual basis of accounting and reported in the same manner as proprietary fund types.

Account Groups include:

General Fixed Assets Account Group - accounts for fixed assets acquired or constructed for general governmental purposes other than those of the proprietary and fiduciary fund types.

General Long-Term Obligations Account Group - accounts for unmatured general long-term liabilities of the Commonwealth other than those of the proprietary and fiduciary fund types.

Certain obligations included in the General Long-Term Obligations Account Group for the State Property and Buildings Commission are also reflected in the statements as investments: The State Property and Buildings Commission issued \$41,380,000 Taxable University Refunding bonds. The proceeds from this issue were used to purchase certain outstanding Housing and Dining Revenue bonds of the State's universities. The income from the Housing and Dining bonds will be used to pay the debt service on the Project Revenue bonds. Savings will be used to reduce the universities' debt service requirements. See Note 15 for additional information.

D. Component Units - presentation of the underlying fund types of the individual component units reported in the discrete column is available from each respective component unit's separately issued financial statements.

E. Budgetary Process and Control - The Commonwealth of Kentucky requires that each branch of government prepare and submit a recommended budget to the General Assembly for each of the two fiscal years to be included in a biennial budget. These budgets are prepared principally on the cash basis. The Legislature reviews these budget requests, makes any necessary revisions, and legally adopts a biennial budget for each of the three branches of government. The Governor has the power to approve or veto each bill, subject to legislative override.

The financial plan for each fiscal year, as presented in a branch budget recommendation, shall be adopted with such modifications as made by the General Assembly (and explained in a budget memorandum) by the passage of the budget bill and such revenue and other acts necessary for the purpose. A budget bill shall not be effective past July 1 of the year in which the next regular session takes place.

Budgetary control is maintained at the budget unit level as designated by the Legislature (i.e., function, major program area, program, or unit of organization).

Appropriations for the General Fund and Road Fund shall be based upon revenue estimates prepared by the Finance and Administration Cabinet and modifications made by the appropriations committee of the General Assembly. Official revenue estimates are not made for the other budgetary funds.

The funds which have legally adopted annual budgets as part of the primary government include the following: General, Transportation, Federal, Agency Revenue, State Parks, Industries for the Blind, Horse Park, Insurance Administration, Computer Services, Central Stores, Telecommunications, Prison Industries, Central Printing, Property Management, and Risk Management. In addition, the State Fair Board Fund, which is shown as a discretely presented component unit, has a legally adopted budget. Capital Projects are budgeted on a project length basis.

The funds allotted for each purpose of expenditure shall be used for no other purpose, except that the head of any budget unit, with the approval of the Secretary of the Finance and Administration Cabinet, may transfer allotted funds from one purpose of expenditure to another within the budget unit. No revisions of the allotment schedule may provide for an allotment or allotments in excess of the amount appropriated to that budget unit in a joint budget resolution or for expenditure for any other purpose than specified in a joint budget resolution and a budget memorandum.

However, budgetary funds except General Fund, Transportation Fund, and Capital Projects Fund, may be amended in an amount up to the actual receipts (not to exceed 5%) by an Advice of Change Order from the Secretary of the Finance and Administration Cabinet. No supplemental appropriations were required during this fiscal year.

Encumbrance accounting is utilized for budgetary control purposes. Encumbrances outstanding at year end for long-term construction contracts other than commitments of a continuing nature are reported as reservations of fund balance for subsequent year expenditures. All other encumbered and unencumbered appropriations lapse at the end of each fiscal year except in the Capital Projects and Transportation Funds, which have project length budgets. Encumbrances are carried forward as revisions to appropriations.

The annual budget is prepared principally on the cash basis, which basis differs from generally accepted accounting principles (GAAP). A reconciliation between the budgetary basis and the GAAP basis is presented in Note 4.

F. Cash and Cash Equivalents - In addition to bank accounts, cash on hand, and imprest cash, this classification includes short-term investments with a maturity of 90 days or less, from date of purchase. Cash equivalents are generally stated at cost, which approximates market. Deferred Compensation amounts are reported at market. Short-term investments, classified as cash equivalents at June 30, 1996, are \$2,545,234,340.

G. Investments - This classification includes long-term investments which are stated at cost, amortized cost, or fair value. Investments of the Deferred Compensation Plan are reported at market value. See Note 5 for investment detail.

H. Receivables - Receivables in the Commonwealth's governmental and fiduciary funds primarily consist of Federal revenues, taxes, and interest on investments. Some governmental fund revenues are not susceptible to accrual prior to receipt, including licenses, fees, permits, and similar revenues which are recognized on the cash basis. Receivables in all other funds have arisen in the ordinary course of business. Receivables in the governmental funds are reported net of allowances for uncollectibles. The allowance for uncollectibles amounted to \$422,421,721.

I. Interfund Transactions - The Commonwealth has the following types of interfund transactions:

Quasi-external Transactions - Charges for services rendered by one fund to another that are treated as revenues of the recipient fund and expenditures or expenses of the disbursing fund.

Reimbursements - Reimbursement of expenditures made by one fund for another are recorded as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

Residual Equity Transfers - Nonroutine or nonrecurring transfers between funds are reported as additions to or deductions from the fund equity balance.

Operating Transfers - Legally authorized transfers other than residual equity transfers are reported as operating transfers in the financial statements.

The composition of the interfund transactions is presented in Note 7.

J. Inventories - Inventories in the governmental funds and similar trust funds consist of expendable supplies held for consumption, the costs of which are recorded as an expenditure at the time of purchase. Reserves of fund balance have been established for the inventory balances for governmental funds. Inventories in the proprietary funds and similar trust funds consist of both expendable supplies held for consumption and the cost of goods held for resale, the costs of which are recorded as an expense as they are used. Inventories are valued at cost (first-in, first-out, or average cost).

K. Fixed Assets and Depreciation-General Fixed Assets - All fixed assets acquired or constructed for general governmental purposes are reported as expenditures in the fund that finances the asset acquisition. Fixed assets are valued in the General Fixed Assets Account Group at historical cost, estimated historical cost or fair market value at time of donation. Buildings of \$617,576,000 at June 30, 1996, were valued as follows: \$351,154,000 at estimated historical cost, \$265,550,000 at historical cost and \$872,000 at fair market value at time of donation. Land of \$76,748,000 at June 30, 1996, was valued as follows: \$33,473,000 at estimated historical cost, \$30,199,000 at historical cost, and \$13,076,000 at fair market value at time of donation. The estimates of historical cost were based on appraised value, as of June 30, 1986, indexed to the date of acquisition. Also, public domain (infrastructure) general fixed assets such as highways, curbs, bridges, and right-of-ways are not capitalized. No depreciation is provided on general fixed assets.

Proprietary and Similar Fiduciary Fund Types - Fund fixed assets acquired or constructed have been stated at historical cost, estimated historical cost, or fair market value at the time of donation. Historical cost has been estimated for approximately eighty-seven percent (87%) of the land cost and fifty-seven percent (57%) of the proprietary fund's buildings cost as of June 30, 1996. The estimate of historical cost was based on appraised value as of June 30, 1986, indexed to the date of acquisition. Land and buildings acquired after June 30, 1986, have been valued at historical cost. They are being depreciated principally on a

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straight-line basis over estimated useful lives ranging from 20 to 50 years for buildings, 3 to 25 years for machinery and equipment, and 10 to 60 years for improvements other than buildings.

It is the Commonwealth's policy to capitalize interest expense incurred on significant assets in proprietary funds during their construction in accordance with FASB Statement No. 62.

The discretely presented component unit financial statements of The Kentucky Center for the Arts, Fiscal Year 1996, do not contain the Center's fixed assets. The Finance and Administration Cabinet, Division of Accounts, Financial Reporting Branch, has adjusted the discretely presented component units column on the

appropriate combined statements included in the Commonwealth of Kentucky Comprehensive Annual Financial Report for the Year Ended June 30, 1996, to add dollar amounts for fixed assets, depreciation, and contributed capital associated with the Center in order to satisfy GAAP requirements regarding the State financial reporting entity.

L. Fund Equity Reserves and Designations - The Commonwealth's fund balance reserves represent those portions of fund balance (1) not appropriable for expenditure, or (2) legally segregated for a specific future use. Designated portions of fund balance represent tentative managerial plans for financial resource utilization in a future period.

Fund Balance Reserved for Other Specific Purposes
(Expressed in Thousands)

	Primary Government		Component Units
	General	Special Revenue	Universities
Loans	\$	\$ 8,983	\$
Inventories	11,776	30,709	
Restricted gifts, grants and contracts			585,560
Deposit with fiscal agents		5,601	
Compensating balance with depositories		1,000	
Budget Stabilization	200,000		
TOTALS	\$ 211,776	\$ 46,293	\$ 585,560

M. Long-Term Obligations - Long-term liabilities that will be financed from governmental funds and expendable trust funds are accounted for in the General Long-Term Obligations Account Group. These long-term liabilities include the following:

1. Payments of principal and interest for general obligation debt and revenue bonds which are recorded as expenditures in the Debt Service Fund.
2. Compensated absences reported in the General Long-Term Obligations Account Group include accumulated unpaid vacation and compensatory time accruals. The amount accruing to proprietary funds and pension trust funds has been included in the respective funds when material.

The policy of the Commonwealth is to record the cost of annual and compensatory leave. Annual leave is accumulated at amounts ranging from 7.5 to 13.13 hours per month, determined by length of service, with maximum accumulations ranging from 30 to 60 days. The calendar year is the period used for determining accumulated leave. At June 30, 1996, the estimated liability for accrued annual leave for the governmental and Primary Government proprietary funds was \$132,959,577 and \$8,569,158, respectively. Compensatory leave is granted to authorized employees on an hour-for-hour basis. At June 30, 1996, the estimated liability for compensatory leave in the governmental and Primary Government proprietary funds was \$37,789,337 and \$2,217,971, respectively.

Sick leave for the Primary Government is earned one day per month with unlimited accumulation. All of the qualifying retiring employees' sick leave balances, expressed in months, shall be added to their service credit for the purpose of determining their annual retirement. There is no liability in the accompanying financial statements for unpaid accumulated sick leave, since it is the Commonwealth's policy to record the cost of sick leave only when paid. See Note 17 for disclosure of the amount of this contingency. The component units have varying policies for compensated absences. Information regarding these policies is available in the audited financial statement of each component unit.

3. Outstanding capital lease obligations for governmental funds and expendable trust funds are reported in the General Long-Term Obligations Account Group.
4. Judgements and contingent liabilities of governmental funds which will not be paid with current resources are reported in the General Long-Term Obligations Account Group.
5. Long-term liabilities of all proprietary and pension trust funds are accounted for in the respective funds.

Long-term obligations exclude those amounts reported as expenditures for compensated absences, judgements, contingencies, and employer pension contributions in the governmental funds which are the amounts that would normally be liquidated with expendable available financial resources.

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N. Contributed Capital - The Proprietary Funds receive general fund appropriations and proceeds of revenue bonds for the acquisition of specific fixed assets. The debt service for these bonds is paid by the Commonwealth's General Fund and the liability is reported in the General Long-Term Obligations Account Group. The assets acquired with the proceeds of the revenue bonds are accounted for in the proprietary funds with an offsetting entry to contributed capital.

(Expressed in Thousands)

Primary Government - Enterprise Fund

Contributed capital as of June 30, 1995	\$ 65,913	
Additions: Fiscal Year 1996	<u>19,036</u>	\$ 84,949
Amortization through June 30, 1995	\$ (19,494)	
Additions: Fiscal Year 1996	<u>(1,647)</u>	(21,141)
Net contributed capital as of June 30, 1996	<u>\$ 63,808</u>	

Primary Government - Internal Service Fund

Contributed capital as of June 30, 1995	\$ 866	
Additions: Fiscal Year 1996	<u>60</u>	\$ 926
Amortization through June 30, 1995	\$ (98)	
Additions: Fiscal Year 1996	<u>(70)</u>	\$ (168)
Net contributed capital as of June 30, 1996	<u>\$ 758</u>	

Component Units - Proprietary Funds

Contributed capital as of June 30, 1995	\$ 160,757	
Additions: Fiscal Year 1996	<u>179</u>	\$ 160,936
Amortization through June 30, 1995	\$ (59,826)	
Additions: Fiscal Year 1996	<u>(4,920)</u>	\$ (64,746)
Net contributed capital as of June 30, 1996	<u>\$ 96,190</u>	

O. Totals - Memorandum Only - Total columns (memorandum only) have been added to certain statements to reflect totals for both the primary government and the reporting entity. These columns are presented for overview informational purposes and do not represent consolidated financial information.

Note 2

CHANGES IN ACCOUNTING PRINCIPLES, REPORTING PRACTICES, AND PRIOR PERIOD ADJUSTMENTS

The fund balances/retained earnings as previously reported have been restated to conform to generally accepted accounting principles and to correct balances for erroneously recorded transactions.

Special Revenue Fund - The Federal Fund, within the Special Revenue Fund, was restated to implement GASB Statement 24. The net effect of this adjustment was an increase in fund balance of \$6,216,000.

The Agency Revenue Fund, within the Special Revenue Fund, was restated to include \$248,000 previously omitted, to remove \$2,141,000 reported in error, and to remove \$36,000 erroneously reported in this fund. The net effect of these adjustments was a decrease in the fund balance of \$1,929,000.

The Other Special Revenue Fund, within the Special Revenue Fund, was restated to remove amounts previously reported in error. The net effect of these adjustments was a decrease in fund balance of \$57,000.

Capital Projects Fund - The Capital Projects Fund was increased to include an amount previously omitted. The effect of this adjustment was an increase in fund balance of \$388,000.

Debt Service Fund - The Debt Service Fund was decreased to remove an amount included in error. The effect of these adjustments was a decrease in fund balance of \$160,000.

Enterprise Funds - The State Parks Fund, within the Enterprise Fund, was restated to include a capital lease liability of \$368,000 and to remove \$42,000 previously reported in error. The net effect of these adjustments was a net decrease in retained earnings of \$410,000.

The retained earnings of the Kentucky Kare Health Insurance Plan, which is accounted for in the Insurance Administration Fund, were decreased by \$2,342,403. This adjustment was the result of an increase in deferred revenue for prior years.

Trust and Agency Funds - During fiscal year 1996, retirement systems adopted the provisions of GASB Statement 25. The effect of the change in accounting principles was a decrease in the beginning net assets held in trust for pension benefits for the Kentucky Employees Retirement System of \$30,987,000, County Employees Retirement System of \$17,444,000 and State Police Retirement System of \$3,613,000. The change in accounting principles resulted in an increase in beginning net assets held in trust of \$320,000 for the Judicial Retirement Plan, \$33,000 for the Legislators' Retirement Plan, and \$6,565,000 for the Kentucky Retirement Insurance Fund.

Component Units - The retained earnings for the State Fair Board were decreased from the amount previously reported by \$782,000. This adjustment resulted from the use of the audited financial statements of the component units and the difference in application of accounting policies.

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The retained earnings of the Kentucky Higher Education Assistance Authority were increased to reflect the reserve funds received when it assumed the operation of the Alabama Guaranteed Student Loan Program. The net effect of this transaction was an increase in retained earnings of \$11,071,000.

The fund balance for universities was decreased \$179,174,000 to correct an amount included in the prior year in error.

Note 3

STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. The Special Revenue Fund - The Agency Revenue Fund budgetary statement has an excess of expenditures over appropriations of \$5,100,000 at June 30, 1996, for Campbell, Daviess, Fayette, Hardin, Jefferson, Kenton, Pike, and Warren counties, and is in accordance with State statutes. State statutes permit that "deficits may be made up out of the amount paid in any succeeding month; but in no event shall the amount allowed by the Finance and Administration Cabinet to any officer for salaries exceed seventy-five percent (75%) of the amount paid to the Finance and Administration Cabinet by the officer during his official term." These amounts are within the statutes and repayment will be made during the term of office of the official.

B. The Enterprise Fund - The Insurance Administration Fund has a deficit retained earnings of \$1,097,045,000. The deficit is the result of the inclusion of the actuarial liability for the risk pools, which will be funded in future periods.

C. The Internal Service Fund - The Risk Management Fund has a deficit retained earnings of \$51,198,000. The deficit is the result of accumulated claims liabilities of the Commonwealth's self-insured worker's compensation programs, and is to be funded in future periods.

D. Component Units - Governmental Fund Types - Bluegrass State Skills Corporation has a deficit fund balance of \$160,000. The deficit is the result of expenditure accruals which will be funded in future periods.

Proprietary Fund Types - The Kentucky Educational Television Authority has a deficit retained earnings of \$4,532,000. The Kentucky Local Correctional Facilities Construction Authority has a deficit retained earnings of \$23,757,000, resulting from the recognition of loan commitments before financing was arranged. The Authority will issue bonds to satisfy these commitments in the future.

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Note 4

Fund type are not budgeted and are shown for comparison purposes only.

BUDGETARY BASIS VS. GAAP

The accompanying Combined Statement of Revenues and Expenditures-Budget and Actual (Budgetary Basis)-All Budgeted Fund Types, presents comparisons of the legally adopted budget (see Note 1E) with actual data on budgetary basis. The Other Special Revenue Fund within the Special Revenue Fund type and the Kentucky Lottery Corporation within the Enterprise

Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles, a schedule reconciling the fund balance on a cash basis at June 30, 1996, to the fund balance on a modified accrual basis follows (expressed in thousands):

Budgetary Funds	General	Special Revenue	Enterprise	Internal Service	Expendable Trust	Component Units
Financial Statements Funds	General	Special Revenue	Enterprise	Internal Service	Fiduciary	Component Units
Fund Balance/Retained Earnings June 30, 1996:						
Budgetary Basis	\$ 503,028	\$ 1,415,556	\$ 249,840	\$ 47,098	\$ 485,612	\$ 90,938
Adjustments:						
Accrued Revenues	208,195	405,541	3,837	1,916	1,500	
Accrued Expenditures	(239,091)	(455,420)	(3,858)	(3,302)	(49,762)	
Accrued Transfers (Net)	(5,517)	531	(4)			
Total Accruals ¹	(36,413)	(49,348)	(25)	(1,386)	(48,262)	
Reclassifications and Other Adjustments:						
Inventory Balances ¹	11,776	30,645	4,184	4,945		
To Reclassify Financial Resources into Financial Statement Fund Types ²		(567,451)	(454,616)	(13,585)		
To Record Financial Resources available as Non-Budgeted Funds ³	(15,000)	386,071	(754,545)	(67,355)	14,816,641	3,508,747
Fund Equity/Other Credits June 30, 1996:						
GAAP Basis	\$ 463,391	\$ 1,215,473	\$ (955,162)	\$ (30,283)	\$ 15,253,991	\$ 3,599,685

¹ Basis Differences

² Perspective Differences

³ Entity Differences

COMMONWEALTH OF KENTUCKY
Notes to Combined Financial Statements
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Note 5

EQUITY IN POOLED CASH AND INVESTMENTS, CASH, AND INVESTMENTS

The State maintains a cash and investment pool that is available for use by all funds under the auspices of the State Investment Commission as authorized under KRS 42.500 et al. In addition, investments are separately held by several of the State's funds and Component Units. Legally authorized investments vary by fund but generally include: obligations of or guaranteed by the United States; obligations of any corporation of the United States Government; collateralized certificates of deposit; bankers' acceptances; commercial paper; and repurchase agreements. In addition to these, pension plans and certain Component Units are permitted to purchase common stocks, corporate bonds and real

property and mineral rights. The State is also eligible to invest in reverse repurchase agreements.

Deposits - At year end, the carrying amount of the State's deposits for the Primary Government was \$1,185,407,934 and \$222,059,742 for the Component Units. At year end, the bank balance was \$1,267,121,584 and \$215,260,872 for the Primary Government and Component Units, respectively. The bank balance of the Primary Government administered by the State Treasurer was covered by Federal depository insurance or by collateral held by the State or the State's agent in the State's name. The following table categorizes the Primary Government's and Component Units' deposits as: (1) insured or collateralized with securities by the entity or by its agent in the entity's name; (2) collateralized with securities held by the pledging institution's trust department or agent in the entity's name; or (3) uncollateralized where securities are held by the pledging institution but not in the entity's name.

CASH - PRIMARY GOVERNMENT

	Categories			Total Bank Balance	Carrying Amount
	1	2	3		
Cash	\$ 626,024,532	\$	\$ 61,786,923	\$ 687,811,455	\$ 613,834,764
Cash with Fiscal Agents	37,736,450		22,615,427	60,351,877	54,407,450
Imprest and Change	9,967,083			9,967,083	8,174,501
Money Market			23,378,987	23,378,987	23,379,037
Totals	<u>\$ 673,728,065</u>	<u>\$</u>	<u>\$ 107,781,337</u>	<u>781,509,402</u>	<u>699,795,752</u>
Cash on Deposit with Federal Government				485,612,182	485,612,182
Totals				<u>\$ 1,267,121,584</u>	<u>\$ 1,185,407,934</u>

CASH - COMPONENT UNITS

	Categories			Total Bank Balance	Carrying Amount
	1	2	3		
Cash	\$ 140,401,841	\$ 6,445,314	\$ 14,395,370	\$ 161,242,525	\$ 168,041,395
Money Market	11,327,165	40,112,260	47	51,439,472	51,439,472
Nonnegotiable Certificates of Deposit	2,578,875			2,578,875	2,578,875
Totals	<u>\$ 154,307,881</u>	<u>\$ 46,557,574</u>	<u>\$ 14,395,417</u>	<u>\$ 215,260,872</u>	<u>\$ 222,059,742</u>

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Investments - The State holds investments both for its own benefit and as an agent for other related parties. The major investment programs conducted for the direct benefit of the State are administered by the Office of Financial Management and Economic Analysis. The credit risk of those investments held in the State investment pool is all Category (1). The credit risk mix of the retirement systems, component units, and other State agencies is disclosed in the financial statement footnotes of the individual entities. The following tables categorize the Primary Government's

and Component Units' investments as: (1) those investments which are insured or registered, or held by the State of Kentucky or its agent in the State's name; Category (2) those investments which are uninsured and unregistered with securities held by the counterparty's trust department or agent in the State's name; and Category (3) those investments which are uninsured and unregistered for which the securities are held by the counterparty or by its trust department or agent but not in the State's name.

INVESTMENTS - PRIMARY GOVERNMENT

	Categories			Net Investment	Market Value
	1	2	3		
Government Securities	\$ 5,313,117,192	\$ 184,491,505	\$	\$ 5,497,608,697	\$ 5,502,085,231
Corporate Bonds	1,350,576,137			1,350,576,137	1,348,747,246
Common Stocks	7,617,868,998			7,617,868,998	8,497,362,159
Repurchase Agreements	995,195,217	891,601,400		1,886,796,617	1,886,796,617
State and Municipal Obligations	13,278,195			13,278,195	13,226,079
Commercial Paper	123,105,261			123,105,261	123,105,261
Totals	<u>\$ 15,413,141,000</u>	<u>\$ 1,076,092,905</u>	<u>\$</u>	<u>\$ 16,489,233,905</u>	<u>\$ 17,371,322,593</u>
Mutual Funds				142,145,830	142,145,830
Real Estate				519,396,036	521,127,908
Mortgages				109,478,243	118,447,576
Annuity Contracts				190,595,144	190,595,144
State Investment Pool				324,912,571	321,827,851
Investments Held by Broker-Dealers					
Under Securities Loans				273,300,492	273,300,492
Other				136,845	115,445
Total Investments				<u>\$ 18,049,199,066</u>	<u>\$ 18,938,882,839</u>

INVESTMENTS - COMPONENT UNITS

	Categories			Net Investment	Market Value
	1	2	3		
Government Securities	\$ 295,412,366	\$ 192,901,043	\$ 5,395	\$ 488,318,804	\$ 487,842,494
Negotiable Certificates of Deposit	11,312,290			11,312,290	11,312,290
Corporate Bonds	32,616,722	553,330		33,170,052	33,332,756
Other	4,305,950		178,000	4,483,950	4,589,339
Common Stock	68,298,336	24,733		68,323,069	78,297,034
Repurchase Agreements	219,855,352	3,573,381	105,389	223,534,122	223,428,733
State and Municipal Obligations	105,830	409,330		515,160	548,384
Preferred Stock	868,000			868,000	868,000
Commercial Paper	13,675,991	20,496,564		34,172,555	34,172,555
Closed-End Mutual Funds	4,149,370	328,203		4,477,573	4,704,338
Totals	<u>\$ 650,600,207</u>	<u>\$ 218,286,584</u>	<u>\$ 288,784</u>	<u>\$ 869,175,575</u>	<u>\$ 879,095,923</u>
Endowment Funds				74,650,187	77,717,674
Open-End Mutual Funds				32,119,939	34,133,502
Guaranteed Investment Contracts				36,155,991	36,155,991
Real Estate				299,362	313,362
Trust Funds				14,335,676	14,035,566
State Investment Pool				374,868,528	371,309,526
Total Investments				<u>\$ 1,401,605,258</u>	<u>\$ 1,412,761,544</u>

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Statutes require that securities underlying repurchase agreements must have a market value of at least 102 percent of the cost of the repurchase agreement. The market value of securities underlying repurchase agreements fell below this required level on a few occasions during the year; however, no losses were sustained due to the fall in collateralization levels. The collateralization is monitored on a weekly basis (as specified within 200 KAR 14.081) and at any point where the collateralization falls below 102 percent of the cost of the repurchase agreement, the seller/borrower is contacted and the situation is normally rectified within two business days.

Securities Lending Program - State statutes, as interpreted by opinions of the Attorney General, authorize the Commonwealth to enter into bonds borrowed/bonds pledged securities lending agreements, that is a transfer of securities with a simultaneous receipt of securities. The securities received in the transfer are the type which the State is legally authorized to hold. The market value of the securities received in the agreement is 102 percent of the value of the securities transferred. The securities transferred are a part of the total investments reported above. The securities being held are not reported as a part of the total investments. The Commonwealth retains the interest income on the securities being transferred and received a fee of 9.5 basis points from 7/1/95 to 6/30/96. During the

year, the State earned \$1,744,745 in securities lending income. On June 30, 1996, the market value of the securities transferred was \$1,820,556,609 and the market value of the securities the Commonwealth was holding was \$1,856,980,380. The collateralization requirements and monitoring procedures in the securities lending program are the same as those requirements in regard to repurchase agreements. At year end, the Commonwealth has no credit risk exposure to borrowers because the amounts the Commonwealth owes the borrowers exceed the amounts the borrowers owe the Commonwealth.

Options - The Commonwealth's investment strategy includes the use of derivatives as a tool in managing market risk and providing an opportunity for enhanced return. The Commonwealth selectively utilizes put and call options on United States Treasury securities. These options are on a covered basis, where the Commonwealth holds either cash or securities sufficient to meet the obligation should the option be exercised. On June 30, 1996, the portfolio included \$30,000,000 of obligations under option. The Commonwealth also purchases securities that have built in covered calls (callable agency securities). The risk in holding these securities is the risk that the security can be called (bought back) by the issuing agency at par after a specific date.

Note 6

GENERAL FIXED ASSETS

A statement of changes in general fixed assets for the year ended June 30, 1996, is presented below (Expressed in Thousands):

	Land	Buildings	Machinery and Equipment	Construction in Progress	Totals
Balance June 30, 1995	\$ 71,443	\$ 546,166	\$ 507,167	\$ 196,623	\$ 1,321,399
Additions	5,819	73,119	81,694	20,761	181,393
Deletions	(514)	(1,709)	(39,045)	(55,292)	(96,560)
Balance June 30, 1996	<u>\$ 76,748</u>	<u>\$ 617,576</u>	<u>\$ 549,816</u>	<u>\$ 162,092</u>	<u>\$ 1,406,232</u>

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Note 7

INTERFUND TRANSACTIONS

The table below shows the interfund receivables and payables and interfund operating transfers for fiscal year 1996 (Expressed in Thousands):

Interfund Receivables and Payables			Transfers In/Out		
Fund	Interfund Receivable	Interfund Payable	Fund	Operating Transfers In	Operating Transfers Out
General	\$ 128,491	\$ 37,377	General	\$ 185,745	\$ 1,092,173
Special Revenue:			Special Revenue:		
Transportation	6,146	13,107	Transportation	224	159,511
Federal	18,075	122,069	Federal	684	12,906
Agency Revenue	132,684	57,775	Agency Revenue	242,188	209,692
Other Special Revenue	3,831	45,063	Other Special Revenue	351,379	383,033
Debt Service	345	26,822	Debt Service	356,670	28,016
Capital Projects	3,894	794	Capital Projects	56,772	46,831
Enterprise:			Enterprise:		
State Parks	114	441	State Parks	40,637	927
Industries for the Blind	22	1	Kentucky Lottery Corporation		147,000
Horse Park	2	51	Industries for the Blind	862	
Insurance Administration	916	5,028	Horse Park	1,430	
Internal Service:			Insurance Administration	1,230	4,169
Computer Services	2,048	588	Internal Service:		
Central Stores	6	3	Computer Services	56	444
Telecommunications	1,198	421	Central Stores		
Prison Industries	2,920	376	Telecommunications	300	17
Central Printing	554	34	Prison Industries		654
Property Management	698	178	Property Management	2,602	13
Risk Management	60	2,034	Risk Management	407	2,493
Fiduciary Funds:			Fiduciary Funds:		
Unemployment Compensation	1,745		Unemployment Compensation	1,742	1,340
Special Benefits	10,778	2,323	Special Benefits	50,681	13,503
Special Deposit Trust	307	816	Special Deposit Trust		
Component Units:			Component Units:		
Governmental	516		Governmental	2,348	
Proprietary	2	51	Proprietary	57,787	2,381
Universities and Colleges	51,687	51,687	Universities and Colleges	755,823	4,464
Totals per financial statements:	\$ 367,039	\$ 367,039	Totals per financial statements	\$ 2,109,567	\$ 2,109,567

Note 8

PENSION PLANS

The employer disclosure for pension trust funds is presented to comply with GASB statement 27 for the Kentucky Retirement System which implemented GASB statements 25 and 26, and for the Judicial Form Retirement System which has implemented GASB statement 25. The Kentucky Teachers' Retirement System is reported in accordance with GASB statement 5 requirements.

Under the provisions of Kentucky Revised Statutes (KRS) 61.645, the Board of Trustees of Kentucky Retirement Systems administers the Kentucky Employees Retirement System (KERS), County Employees Retirement System (CERS), and State Police Retirement System (SPRS).

The State contributes to the KERS, a multiple-employer cost sharing defined benefit pension plan that covers substantially all regular full-time members employed in non-hazardous and hazardous duty positions of any state department, board, or any agency directed by Executive Order to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of the plan members under certain circumstances. Per KRS 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend the contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. However, formal commitment to provide the contributions by the employer is made through the biennial budget. The System's administrative budget and employer contribution rates are subject to the approval of the Kentucky General Assembly. Employee contribution rates are set by the statute and may be changed only by the Kentucky General Assembly.

The State is the predominant employer for KERS and for note disclosure purposes will be considered as a single employer plan.

CERS, a multiple employer cost sharing defined benefit pension plan that provides for retirement, disability, and death benefits to plan members.

SPRS is a single-employer defined benefit plan that covers all full-time State Troopers employed in a hazardous duty position by the Kentucky State Police. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of the plan members under certain circumstances. Per KRS 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the

basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend the contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. However, formal commitment to provide the contributions by the employer is made through the biennial budget.

The financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with terms of the plan.

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national exchange are valued at the last reported sales price at current exchange rates. The fair value of real estate is based on appraisals. Investments that do not have an established market are reported at estimated fair value.

Cost-of-living adjustments (COLA) are provided at the discretion of the State Legislature.

The allocation of insurance premiums paid by the Fund and amounts withheld from members' benefits is based on years of service with the Systems, as follows:

Years of Service	Percent Paid by Insurance Fund	Percent Paid by Member Through Payroll Deduction
20 or More	100%	0%
15-19	75%	25%
10-14	50%	50%
4 - 9	25%	75%
Less Than 4	0%	100%

The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the above mentioned retirement systems. That report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

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The Judicial Retirement Plan provides retirement, disability and death benefits to plan members and their beneficiaries. Cost-of-living adjustments (COLA) are provided at the discretion of the State Legislature, except that existing legislation provides that a pension benefit shall be increased, if necessary, so that it equals an amount calculated by using a 1.5125% benefit rate and the sixty month average earnings of the position held by the member at the time of his retirement. Contribution rates are established by KRS 21.525.

The Legislators' Retirement plan provides retirement, disability, and death benefits to plan members and their beneficiaries. Cost-of-living adjustments (COLA) are provided at the discretion of the State Legislature, except that existing legislation provides that a pension benefit shall be increased, if necessary, so that it equals an amount calculated by using a 1.5125% benefit rate and the sixty month average earnings of the position held by the member at the time of his retirement. Contribution rates are established by KRS 21.525.

The financial statements are prepared using the accrual basis of accounting. Plan member contributions to the plan are recognized when due and the employer has made formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with terms of the Plans

Investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are prepared at estimated fair value.

The Judicial Form Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the above mentioned retirement systems. That report may be obtained by writing to the Judicial Form Retirement System, P.O. Box 791, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-5310.

	Kentucky Legislators' Retirement Plan	Kentucky Judicial Retirement Plan	State Police Retirement System	Kentucky Employees Retirement System
Contribution rates:				
State	50.60%	31.30%	23.05%	8.75%-18.05%
Plan Members	5.00%	5.00%	7.00%	5%-7%
Portion of State Contribution for Health Insurance			26.58%	8.89%-17.87%
Annual pension costs (in thousands)	\$1,591	\$5,519	\$7,998	\$123,396
Contributions made (in thousands)	\$1,490	\$4,203	\$7,089	\$113,717
Actuarial valuation date	June 30, 1996	June 30, 1996	June 30, 1996	June 30, 1996
Actuarial cost method	Projected unit credit	Projected unit credit	Entry age normal	Entry age normal
Amortization method	Interest + 1%	Interest + 1%	Level percent closed	Level percent closed
Remaining amortization period	25 years	25 years	30 years	30 years
Asset valuation method	Cost	Cost	Five-year average of market to book value	Five-year average of market to book value
Actuarial assumptions:				
Investment rate of return	7.00%	7.00%	8.25%	8.25%
Projected salary increases	5.50%	5.50%	6.50%	6.50%
Increase in Health Insurance Cost	6%-10%	6%-10%	7.5%-10%	7.5%-10%
(Dollar amounts in thousands)				
Annual Required Contributions (ARC)	\$ 1,591	\$ 5,519	\$ 7,998	\$ 123,396
Interest on Net Pension Obligation (NPO)	6	269	566	3,801
Adjustment to ARC	(7)	(307)	(344)	(2,308)
Annual pension cost	1,590	5,481	8,220	124,889
Contributions made	1,490	4,203	7,089	113,717
Increase (Decrease) in NPO	100	1,278	1,131	11,172
NPO beginning of year	82	3,841	6,867	46,068
NPO end of year	\$ 182	\$ 5,119	\$ 7,998	\$ 57,240

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Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
<u>Kentucky Employees Retirement System</u>						
June 30, 1994	\$ 2,729,048,987	\$ 2,912,050,275	\$ 183,001,288	0.937	\$ 1,197,168,054	0.153
June 30, 1995	2,983,813,538	3,240,852,288	257,038,750	0.921	1,320,041,446	0.195
June 30, 1996	3,375,295,577	3,415,404,483	40,108,906	0.988	1,318,908,003	0.030
<u>State Police Retirement System</u>						
June 30, 1994	\$ 205,320,509	\$ 206,763,310	\$ 1,442,801	0.993	\$ 36,783,743	0.039
June 30, 1995	217,504,443	241,690,631	24,186,188	0.900	38,955,271	0.621
June 30, 1996	237,515,346	244,540,812	7,025,466	0.971	34,698,957	0.202
<u>Judicial Retirement Plan</u>						
June 30, 1994	\$ 111,316,007	\$ 96,457,897	\$ (14,858,110)	1.154	\$ 15,076,520	(0.986)
June 30, 1995	97,765,420	122,947,042	25,181,622	0.795	17,481,864	1.440
June 30, 1996	133,973,167	133,259,942	(713,225)	1.005	18,963,743	(0.038)
<u>Legislators' Retirement Plan</u>						
June 30, 1994	\$ 28,169,889	\$ 29,739,766	\$ 1,569,877	0.947	\$ 3,410,000	0.460
June 30, 1995	30,895,685	36,100,573	5,204,888	0.856	3,492,500	1.490
June 30, 1996	34,942,019	36,958,664	2,016,645	0.945	3,410,000	0.591

Membership of the retirement systems, at June 30, 1996, is shown in the following table:

	Kentucky Employees Retirement System	County Employees Retirement System	State Police Retirement System	Judicial Retirement Plan	Legislators' Retirement Plan	Kentucky Teachers' Retirement System	Totals
Retirees and beneficiaries receiving benefits	19,970	18,169	625	192	90	24,877	63,923
Terminated plan members - vested	2,484	2,339	8	22	40	2,482	7,375
Terminated plan members - non-vested	9,222	13,739	72				23,033
Active plan members	50,597	72,554	1,002	230	124	56,246	180,753
Total members	82,273	106,801	1,707	444	254	83,605	275,084
Number of participating employers	354	1,012	1	1	1	202	1,571

The Kentucky Teachers' Retirement System (KTRS) is a cost sharing multiple employer defined benefit plan which covers substantially all persons occupying positions in the public elementary or secondary schools for which a teaching certificate is required, faculty members of five regional universities, the Commissioner of Education and professional staff, the faculty members of the School for the Deaf, School for the Blind, and the State area vocational schools. This Plan provides for retirement, disability, and death benefits.

KTRS members are required by statute to contribute 9.855% of their salaries to the System. University members are required to contribute 8.375% of their salaries. KRS 161.580 allows each university to reduce the contributions of its members by 2.215%. Therefore,

university members contribute 6.16% of their salary to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for its non-university members and 13.84% of salaries for university members. The member and employer contributions consist of pension contributions and post-retirement contributions. The post-retirement contribution (.75%) finances KTRS's retiree medical and insurance program. If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee contributions plus interest earned are refunded to the employee upon their request.

Employees are entitled to an annual retirement benefit, payable monthly for life, if they either attain the age of fifty-five (55) and

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complete five (5) years of Kentucky service or complete twenty-seven (27) years of Kentucky service. Non-university employees receive monthly payments equal to either two (2) percent (service prior to January 1, 1984) or two and one-half (2 ½) percent (service after January 1, 1984) of their final average salaries for each year of credited service. University employees receive monthly benefits equal to two (2) percent of their final average salary for each year of credited service. The final average salary is the average of the employee's five (5) highest annual salaries. Employees with less than twenty-seven (27) years of service may retire and receive reduced retirement benefits. Members' retirement benefits become vested when they have completed five (5) years of credited service.

The employer and employee contributions to KTRS for the year ended June 30, 1996, were \$307,111,462 (16.40% of covered payroll) and \$201,890,485 (10.75% of covered payroll), respectively.

The employer actuarial required contribution for the 1995-96 fiscal year was \$318,400,000 and the actual contribution was \$307,100,000. The \$11.3 million difference represents the 1994 legislature permanent decrease in funding of COLAs granted in the 1986-88, 1990-92, and 1992-94 bienniums.

In addition to the above employer and member pension contributions, the member and employer made contributions for post-retirement medical insurance benefits. The actuarial cost of ad hoc retiree cost-of-living adjustments granted by the General Assembly is funded over a fifteen year period and is also included as a supplemental appropriation.

Three-Year Historical Trend Information Teachers' Retirement System (Amounts expressed in millions)

Fiscal Year	Net Assets Available for Benefits	Pension Benefit Obligation	Percentage Funded	Unfunded (Funds in Excess of) Pension Benefit Obligation	Annual Covered Payroll	Unfunded (Funds in Excess of) Pension Benefit Obligation as a Percentage of Covered Payroll	Employer Contribution	% of Covered Payroll	Actuarial Required Contribution
1994	\$ 5,688.1	\$ 7,521.9	75.6%	\$ 1,833.8	\$ 1,748.1	104.9%	\$ 289.5	16.6%	\$ 300.8
1995	6,176.5	8,210.0	75.2%	2,033.5	1,819.8	111.7%	298.4	16.4%	309.7
1996	7,001.6	9,178.6	76.3%	2,177.0	1,877.9	115.9%	307.1	16.4%	318.4

Pension Benefit Obligations of the Retirement Systems - The amount shown below as the "pension benefit obligation" is a standard disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the Systems on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarial present value of credited projected benefits and is independent of the funding method used to determine contributions to the Systems.

KTRS also provided postretirement health care benefits in accordance with KRS 161.675. To be eligible for medical benefits, the member must have retired either for service or disability, attained age 55 with 5 years of Kentucky service, or had 27 years of service. Eligible dependents include unmarried dependent children under the age of 19 and spouses. Currently, KTRS insurance covers 21,299 retirees and 7,205 dependents.

The postretirement health care provided by KTRS are financed on a pay-as-you-go basis. In order to fund the postretirement health care benefits, one and five-tenths percent (1.5%) of the gross annual payroll of all active members is contributed. One-half (1/2) of this amount is derived from member contributions and one-half (1/2) from state appropriations. Also, effective September 1, 1992, retirees pay from 10-19% of the single premium cost and spouses pay from 45-100% of the cost. Priority is given to members with 20 or more years of service and members age 65 or older. Any amounts not required to meet current costs shall be maintained as a reserve for future health care benefits. As of June 30, 1996, KTRS had \$27,203,177 of net assets available for future health care benefits.

The actuary for KTRS has determined that given the present level of State funding and member contributions, it will take thirty (30) years to fund the unfunded pension benefit obligation.

Ten Year Historical Trend Information - Ten year historical trend information (or as many years as available) showing the progress in funding the pension obligation is available in the audit reports for the individual PERS.

The pension benefit obligation was computed as a part of the actuarial valuations performed as of June 30, 1996. Significant actuarial assumptions used in the valuations include (a) a rate of return on the investment of present and future assets of 8 percent a year compounded annually, and (b) projected salary increases of 4.50 to 8.60% a year. The same assumptions used to compute the pension benefit obligation are used to compute the actuarial required contributions.

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Pension Benefit Obligation (Expressed in Thousands)

Pension benefit obligation:	
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$ 4,018,237
Current employees:	
Accumulated employee contributions including allocated investment earnings	1,805,336
Employer-financed vested	2,378,879
Employer-financed nonvested	976,125
Total pension benefit obligation	9,178,577
Net assets available for benefits, at cost (market value \$7,884,893)	7,001,560
Unfunded (funds in excess of) pension benefit obligation	\$ 2,177,017

Note 9

EMPLOYEE BENEFIT PLANS

A. Self-Insured Health Care

The Commonwealth of Kentucky offers, as one of ten health insurance options to employees of the State, local boards of education, local health departments and retirees under the age of 65, a self-insured health care plan. Under health care reform, individuals, municipal governments, and qualified small business are also eligible to purchase health insurance from the State's self-insured plan. The plan is known as Kentucky Kare and is administered by third parties who are responsible for the processing of claims, cost containment, and utilization review. Presently, 33,152 persons have selected Kentucky Kare as their health care provider for the plan period January 1, 1996 through December 31, 1996. There are 20,578 single coverage plans; 6,877 family coverage plans; 3,085 enrollee plus dependent children coverage plans; and 2,612 enrollee plus one spouse or child coverage plans.

B. Deferred Compensation

Employees of the Commonwealth, its cities, counties, and local school districts are eligible to participate in two deferred compensation plans as authorized by the United States Internal Revenue Code. These plans, labeled 457 and 401(k), after sections of the Code, are administered by the Department of Personnel and an independent plan administrator. The Commonwealth, through a board of trustees as defined in KRS 18A.245, selects the administrator to oversee the daily operations and technical compliance of the plans with applicable sections of the Internal Revenue Code. The Commonwealth's responsibilities consist of withholding payroll deductions for its employees, collecting employee withholdings of the cities, counties, and local school districts, and remitting those withholdings to the insurance companies holding fixed and variable annuity contracts (carriers). Both plans permit employees to

defer collecting a portion of their salary until future years. This deferment is not available to employees until termination, retirement, death, or unforeseeable emergency.

All compensation deferred under Section 457, all property and rights purchased with that compensation, and all income attributable to that compensation, property, or rights belong solely to the employer until paid to the employee or beneficiary, subject only to the claims of the employer's general creditors. Participants' rights under the Plan are equal to those of the general creditors of the employer in an amount equal to the fair market value of the deferred account for each participant. All compensation deferred under Section 401(k) and resultant assets belong to the Plan participants.

Assets of the 457 Plan are reported in an Agency Fund within the fiduciary fund type. Assets of the 401(k) Plan are not reported in these statements and are not available to the general creditors of the employers.

Of the \$334,778,000 in the 457 Plan at June 30, 1996, \$226,596,000 was applicable to the Commonwealth while the remaining \$108,182,000 represents assets of the other jurisdictions participating in the Plan.

On February 12, 1993, an order to rehabilitate Kentucky Central Life Insurance Company (KCL), one of the carriers for the Kentucky Public Employees Deferred Compensation Authority (the Authority), was granted to the Commonwealth of Kentucky's Department of Insurance because of KCL's deteriorating financial condition. On June 1, 1995, the Jefferson Pilot Life Insurance Company acquired certain assets and assumed liabilities of Kentucky Central Life Insurance Company.

At June 30, 1996, the acquisition plan provides for further distributions from the estate of Kentucky Central Life Insurance Company. These subsequent distributions will be allocated among KCL policy holders who opted into the plan, including the Authority's group annuity fixed contract. The provisions of the Plan also provide for indemnification adjustments which could reduce the account values of participating policy holders if the estate of Kentucky Central Life Insurance Company has not retained sufficient assets to pay all claims entitled to priority over the claims of policy holders. Although the Liquidator of KCL does not currently anticipate that any indemnification claims will be made, the Authority's account balance remains liable for its pro rata share of any indemnification adjustment required by the plan.

Note 10

LEASE OBLIGATIONS

The Commonwealth has entered into various leases for land, buildings, and equipment. Generally, leases contain termination clauses providing for cancellation after 30, 60, or 90 days written

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At June 30, 1996, capitalized leases included equipment as follows (Expressed in Thousands):

	Primary	Government	
	Proprietary Fund Types	General Fixed Assets	Component Units
Equipment acquired through capital leases is recorded at the lesser of fair market value or present value of future minimum lease payments.			
Buildings	\$	\$	\$ 7,871
Equipment	8,761	2,732	14,183
Total	8,761	2,732	22,054
Less: Accumulated Amortization	(2,614)		(13,574)
Total, Net of Amortization	\$ 6,147	\$ 2,732	\$ 8,480

Future minimum rental commitments for capitalizable leases as of June 30, 1996, are as follows (Expressed in Thousands):

	Primary Government			Component Units		
	Long-term Obligations Account Group	Enterprise Funds	Internal Service Funds	University and College Funds	Proprietary Fund Types	Total
1997	\$ 505	\$ 142	\$ 3,504	\$ 10,378	\$ 2,528	\$ 17,057
1998	268	113	2,270	9,696	2,416	14,763
1999	163	92	990	9,044	2,576	12,865
2000	77		10	8,666	2,515	11,268
2001	20			8,156	2,509	10,685
Thereafter	3			82,872	17,964	100,839
Totals	1,036	347	6,774	128,812	30,508	167,477
Less: Amounts representing Interest (2.71% to 19.75%)	111	32	458	42,974	8,891	52,466
Present value of future minimum lease payments	\$ 925	\$ 315	\$ 6,316	\$ 85,838	\$ 21,617	\$ 115,011

notice. In addition, certain leases contain appropriation clauses indicating that continuation of the lease is subject to funding by the General Assembly. It is expected that in the normal course of business most of these leases will be replaced by similar leases.

Changes in leases payable accounted for in the general long-term obligation account group for the year ended June 30, 1996, are summarized in Note 15.

A portion of the capital lease liability for the University and College Fund is applicable to leases with the Commonwealth.

Note 11

RISK MANAGEMENT

The Commonwealth is exposed to various risks of loss related to torts: theft, damage, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commonwealth utilizes the Risk Management Fund to account for these activities.

Fire and Tornado Insurance:

The Fire and Tornado Insurance Program is established to account for and finance its uninsured risk of loss arising from damages to State buildings and personal property. Under this program, coverage is provided for up to a maximum of \$300,000 per occurrence of loss for each insured subject of risk. The Fire and Tornado Insurance Program purchases reinsurance for claims in excess of coverage provided by the Program. Settled claims have not exceeded commercial coverage in any of the past three fiscal years.

The claims liability of \$1,975,372 reported in the Program at June 30, 1996, is based on the requirements of GASB 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the Program's claims liability amount in fiscal 1996 and 1995 were:

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	Fiscal Year 1996	Fiscal Year 1995
Beginning of Fiscal Year Liability	\$ 2,469,347	\$ 1,158,539
Incurred Claims	1,216,746	1,873,748
Changes in Estimates		
Claim Payments	(1,710,721)	(562,940)
Balance at Fiscal Year End	\$ 1,975,372	\$ 2,469,347

Self Insured Workers' Compensation:

The Workers' Compensation Program is self-insurance for the benefit of the Commonwealth's employees, and others as described in KRS 18A.370. Losses payable by the Program include medical claims and loss of wages as a result of an employment related injury. Premiums are established based upon estimated claims and administrative cost for the coming fiscal year. The Program carries reinsurance coverage for large individual or incident claims between \$5,000,000 and \$20,000,000. Settled claims have not exceeded commercial insurance coverage for the past three fiscal years.

The actuarial determined aggregate claims liability of \$45,761,694 reported in the Program at June 30, 1996, includes both reported and unreported insured events, including estimates of future payments of losses and related claims' adjustments. Changes in the Program's claims liability amount in fiscal 1996 and 1995 were:

	Fiscal Year 1996	Fiscal Year 1995
Beginning of Fiscal Year Liability	\$ 38,254,301	\$ 35,358,972
Claims and Claims Adjustments Incurred	14,708,992	12,727,235
Changes in Estimates	4,077,603	910,927
Claims and Claims Adjustment Payments	(11,279,202)	(10,742,833)
Balance at Fiscal Year End	\$ 45,761,694	\$ 38,254,301

Transportation Cabinet Workers' Compensation:

The Transportation Cabinet's Self-Insured Worker's Compensation Trust Program (the "Program") was organized on July 1, 1993, as a self-insurance fund administered by the Transportation Cabinet of the Commonwealth of Kentucky (the "Cabinet"). The purpose of the Program is to provide workers' compensation insurance to the employees of the Cabinet. The losses incurred by the Program are serviced by a designated third-party administrator who processes and reports all claims to the Program. The aggregate claims liability is based on an actuarial study, dated June 30, 1996.

	Fiscal Year 1996	Fiscal Year 1995
Beginning of Fiscal Year Liability	\$ 19,928,581	\$ 20,767,791
Claims and Claims Adjustments Incurred	6,252,203	3,318,319
Changes in Estimates		
Claims and Claims Adjustment Payments	(4,648,493)	(4,157,529)
Balance at Fiscal Year End	\$ 21,532,291	\$ 19,928,581

Note 12

RISK POOLS

The Commonwealth's risk pools, which are reported as enterprise funds, are the Insurance Administration Fund and the Grain Insurance Fund. The Insurance Administration Fund includes the operations of five risk pools, as follows: Kentucky Kare, Workers' Compensation Insurance, Petroleum Storage Tank Assurance, Bond Pool, and Mine Subsidence Insurance. The Insurance Administration Fund is reported as part of the primary government. The Grain Insurance Fund is a risk pool reported as a discrete component unit.

Risk Pools - Enterprise Funds

Kentucky Kare:

Kentucky Kare is a self insured health care plan offered to employees of the State, local boards of education, local health departments, and retirees under the age of 65 of the Kentucky Retirement Systems. This plan is administered by third parties who are responsible for the processing of claims, cost containment, and utilization review.

As of June 30, 1996, the number of employees, retirees, and former employees electing COBRA extension of benefits were as follows: State employees, retirees, and former employees of 11,705; local board of education employees of 17,931; and local health department employees of 3,516.

Monthly premiums are established by the Commonwealth. They vary by the benefit coverage and the dependent status (single, family, or single parent). The plan offers five levels of coverage: Kentucky Kare Budget High, Kentucky Kare Economy Low, Kentucky Kare Enhanced High, Kentucky Kare Standard High, and Kentucky Kare Standard Low. Preventive dental care is an optional rider to the plans.

Estimates of the liabilities for incurred (both reported and unreported) but unpaid claims are actuarially determined using the development method. This method uses past observed patterns of the time between claim incurral and payment to estimate incurred claims from available paid claims information. Liabilities are based on the estimated ultimate cost of settling the claims,

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including the effects of inflation and other societal and economic factors. Claim adjustment expense is included in the administrative fee paid to the third party administrator.

In October 1993, a refund to the Commonwealth of Kentucky of excess premiums from another insurance carrier in the amount of \$3,142,244 was erroneously deposited in the Kentucky Kare Insurance Trust Fund. In August 1996, this amount was transferred to an Agency Fund, along with accrued interest totalling \$66,331, for FY 94, and \$176,238 for FY 95, and held until proper disposition of the moneys can be determined.

The Plan establishes a liability for both reported and unreported insured events, which includes estimates of future payments of losses and related claims' adjustments. The following represents changes in this liability for the Plan during the past two years:

	Fiscal Year 1996	Fiscal Year 1995
Beginning Unpaid Claims Liability	\$ 26,203,068	\$ 18,859,577
Claims Incurred:		
Current Year	131,132,064	144,479,254
Increase (Decrease) In Prior Years	(2,107,340)	664,999
Total Incurred Claims	129,024,724	145,144,253
Claims Paid:		
Current Year	110,926,514	116,760,772
Prior	25,014,572	21,039,990
Total Payments	135,941,086	137,800,762
Ending Unpaid Claims	\$ 19,286,706	\$ 26,203,068

Workers' Compensation Insurance:

The Kentucky Workers' Compensation Insurance Program, a risk sharing pool, covers pre-existing conditions to protect employers from having to pay for injuries not sustained in their employ, or more than once for disabilities resulting from the same accident. This program encourages re-employment of injured workers at adequate wages by relieving the employer of the requirement of paying disability compensation in addition to full wages. The program also covers claims against uninsured employers.

The Program establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The claims liability of \$1,241,062,122, as reported in the financial statements, is the present value of the aggregate actuarial determined claims liability of \$2,618,329,063, discounted at 6.5%, and the net of the estimated realizable value of reimbursements. The estimated realizable value of these reimbursements at June 30, 1996, is \$11,000,000. The claims adjusted liability of \$57,000,000, as reported in the financial statements, is the present value of the aggregate actuarial determined liability of \$116,000,000, discounted at 6.5%.

The actuarial determined liabilities described above arise from projections included in as actuarial report dated October 2, 1996, and include claims projected through December 31, 1996. Changes in the program's aggregate liabilities for claims and claims adjustment for the past two years are:

	Fiscal Year 1996	Fiscal Year 1995
Beginning of Fiscal Year Liability	\$ 1,874,253,961	\$ 1,879,604,735
Claims and Claims Adjustments Incurred	200,613,923	200,003,080
Changes in Estimates	793,708,099	(66,637,427)
Claims and Claims Adjustment Payments	(134,246,920)	(138,716,427)
Balance at Fiscal Year End	\$ 2,734,329,063	\$ 1,874,253,961

Petroleum Storage Tank Environmental Assurance Program:

The Office of the Petroleum Storage Tank Environmental Assurance Program, a risk sharing pool, was created in the 1990 regular session of the Kentucky General Assembly. However, pursuant to an Executive Order issued by the Governor effective April 19, 1996, the Fund was moved from the Natural Resources and Environmental Protection Cabinet to the Public Protection and Regulation Cabinet. The purpose of the Fund is to assist petroleum storage tank owners or operators in complying with federal financial responsibility requirements relating to petroleum storage tanks and in cleaning up contamination caused by leaking tanks. The Fund is funded by a fee paid by dealers on each gallon of gasoline and special fuels received in the State at a rate of one and four-tenths (\$0.014) cents per gallon.

The Program insures petroleum storage tank owners or operators for cost incurred for cleanup and other corrective action required in cleaning up contamination caused by leaking petroleum storage tanks. The Program also provides coverage for third party claims against the owners or operators for damages sustained as a result of leaking storage tanks. Claims paid by the Program are subject to deductibles which are applied separately, by occurrence, for cleanup claims and third party damage claims. The deductible is set at \$1,000 per occurrence for owners or operators of five or less tanks, at \$5,000 for owners or operators of six to ten tanks, and at \$25,000 for owners of more than ten tanks.

The Fund establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The claims liability of \$312,295,772 reported in the financial statements, is the aggregate actuarial determined claims liability and is not discounted. Changes in the Fund's aggregate liabilities for claims and claims adjustment for the past two years are:

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	Fiscal Year 1996	Fiscal Year 1995		Fiscal Year 1996	Fiscal Year 1995
Beginning of Fiscal Year Liability	\$ 400,459,774	\$ 400,000,000	Beginning of Fiscal Year Liability	\$ 3,177,682	\$ 2,853,042
Claims and Claims Adjustments Incurred	42,529,660	36,897,354	Claims and Claims Adjustments Incurred	261,812	319,640
Changes in Estimates	(101,528,000)	(25,667,676)	Changes in Estimates		
Claims and Claims Adjustment Payments	(17,048,586)	(10,769,904)	Claims and Claims Adjustment Payments		5,000
Balance at Fiscal Year End	\$ 324,412,848	\$ 400,459,774	Balance at Fiscal Year End	\$ 3,439,494	\$ 3,177,682

Bond Pool:

The Bond Pool was established in 1986 to provide an alternative bonding program for small to medium sized coal companies in Kentucky. Membership in the Pool is voluntary and prospective members must apply to become members. Applicants must meet standards set by the Bond Pool Commission to be accepted as members of the Bond Pool. These standards, used to evaluate potential Bond Pool members, considers factors such as the mining experience, reclamation history, and financial condition of the applicant.

Accepted members are rated by the Commission based on the standards considered in the application process. The members are rated and assessed an initial membership fee based on this rating. This fee ranges from \$1,000 to \$2,500. Additionally members pay tonnage fees of \$.05 per ton of surface mined coal and \$.01 per ton for underground mined coal. Provisions are also in effect where the tonnage fee is suspended, for members who have participated in the Program for 36 months, when the Program balance exceeds \$7 million.

The coal companies participating in the Program are required to post a permit specific bond based on the number of acres permitted and their rating in the Program. The Bond Pool in turn provides coverage for reclamation cost that exceed the permit specific bond but limits claims to the total amount of bond required by the permit. The Bond Pool does not pay claims for costs incurred in excess of the required bond amount.

The Program establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The claims liability of \$2,625,568 as reported in the financial statements, is the aggregate actuarial determined claims liability. The claims adjustment liability of \$813,926 is the actuarial determined aggregate liability and is not discounted. Changes in the Program's aggregate liabilities for claims and claims adjustment for the past two years are:

Mine Subsidence Insurance:

The Mine Subsidence Insurance Program is administered by the Department of Insurance. The provisions of the Program require that all insurance policies issued or renewed that insure a structure located in any county in the State, except those specifically exempted by KRS 304.44-60, shall include a separately stated premium for mine subsidence damage coverage. This premium is assessed at the amount determined by the Program and the insurer is required to cede this coverage to the Program. The insurer may refuse to provide coverage where pre-existing damage is determined to exist. The Program provides coverage subject to a deductible of 2% of the policy's total insured value or not less than \$250 and not more than \$500. The Mine Subsidence Program also limits its coverage to \$50,000 per structure.

The claims liability of \$25,000 reported in the Program at June 30, 1996, is based on the requirements of GASB 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the Program's claims liability amount in fiscal 1996 and 1995 were:

	Fiscal Year 1996	Fiscal Year 1995
Beginning of Fiscal Year Liability	\$ 25,000	\$ 184,000
Claims and Claims Adjustments Incurred		25,000
Changes in Estimates		(145,485)
Claim and Claims Adjustment Payments		(38,515)
Balance at Fiscal Year End	\$ 25,000	\$ 25,000

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Risk Pools - Component Units

Grain Insurance:

The Grain Insurance Program is established to promote economic stability in agriculture by providing coverage to grain producers for losses incurred in the event of a financial failure of a grain dealer or grain warehousemen. The Program is funded by a half cent per bushel assessment on all marketed grain produced in Kentucky. The Program also has provisions that the assessment can be suspended when the balance of the Program reaches \$3 million and if suspended will be reapplied when the balance of the Program drops to \$2 million.

The claims liability of \$277,177 reported in the Fund at June 30, 1996, is based on the requirements of GASB 10, which states that a liability for claims be reported, if information prior to the issuance of the financial statements indicates that a probable liability has been incurred at the date of the financial statements, and the amount of the loss can be reasonably estimated. Changes in the Program's claims liability amount in fiscal 1996 and 1995 were:

	Fiscal Year 1996	Fiscal Year 1995
Beginning of Fiscal Year Liability	\$	\$
Claims and Claims Adjustments Incurred	277,177	79,000
Changes in Estimates		
Claims and Claims Adjustment Payments		(79,000)
Balance at Fiscal Year End	\$ 277,177	\$

Note 13

DEFEASANCE OF LONG-TERM DEBT

The State Property and Buildings Commission issued \$39,900,000 Revenue and Refunding Bonds, Project 57, dated August 1, 1995. The net proceeds of this issue were \$39,100,491 after discounts and issuance costs of \$799,509. \$15,000,000 of the proceeds were used to finance new projects. The remaining \$24,100,491 along with \$3,075,747 from the Debt Service Reserve Fund and \$509,396 of other available funds were placed in an escrow account with the trustee to refund the Project 27 Revenue Bonds, dated October 1, 1986 and maturing May 1, 1996 through May 1, 2009. The money will be invested in certain direct obligations of the United States of America, which will earn interest at such rates and mature on such dates so as to provide sufficient funds, together with any cash held uninvested in the escrow fund, to pay the interest of the Refunded Bonds as same becomes due, the principal of the Refunded Bonds at maturity and the redemption price of the Refunded Bonds subject to redemption prior to maturity.

The Refunding Bonds mature November 1, 1995 through November 1, 2015 and carry interest rates of 3.600% to 6.000%. The net savings (reduction in cash flow) for the Refunding Bonds will be \$2,847,589. The present value of the savings is \$1,555,142 at a rate of 5.956%.

The State Property and Buildings Commission issued \$7,625,000 Revenue Refunding Bonds, Project 58, dated August 1, 1995. The net proceeds of this issue were \$7,494,189 after discounts and issuance costs of \$130,811. The net proceeds were placed in an escrow account with the trustee to refund the Project 47 Revenue Bonds and Project 39 (third series) Revenue Bonds. These bonds mature February 1, 1996 through February 1, 2008. The money will be invested in certain direct obligations of the United States of America, which will earn interest at such rates and mature on such dates so as to provide sufficient funds, together with any cash held uninvested in the escrow fund, to pay the interest of the Refunded Bonds as same becomes due, the principal of the Refunded Bonds at maturity and the redemption price of the Refunded Bonds subject to redemption prior to maturity.

The Refunding Bonds mature November 1, 1995 through November 1, 2007 and carry interest rates of 5.700% to 7.000%. The net savings (reduction in cash flow) for the Refunding Bonds will be \$547,760. The present value of the savings is \$345,216 at a rate of 5.058%.

The State Property and Buildings Commission issued \$261,250,000 Revenue and Revenue Refunding Bonds, Project 59, dated November 1, 1995. The net proceeds of this issue were \$264,080,621 after premiums, discounts and issuance costs of \$2,830,621. \$155,184,150 of the proceeds were used to finance new projects. The remaining \$108,896,471 was placed in an escrow account with the trustee to refund Project 52, Project 51, Project 50, Project 49, Project 34 (second series), Project 48, and Project 40 Revenue Bonds. The money will be invested in certain direct obligations of the United States of America, which will earn interest at such rates and mature on such dates so as to provide sufficient funds, together with any cash held uninvested in the escrow fund, to pay the interest of the Refunded Bonds as same becomes due, the principal of the Refunded Bonds at maturity and the redemption price of the Refunded Bonds subject to redemption prior to maturity.

The Refunding Bonds mature May 1, 1996 through November 1, 2015 and carry interest rates of 4.200% to 6.750%. The net savings (reduction in cash flow) for the Refunding Bonds will be \$1,376,312. The present value of the savings is \$1,253,048 at a rate of 5.354%.

The Kentucky School Facilities Construction Commission issues revenue bonds on behalf of local school districts to finance construction of new facilities or the major renovation of existing facilities.

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The Commission participates in the payment of debt service for qualifying districts. During the fiscal year ended June 30, 1996, the Commission issued the following refunding revenue bonds:

Revenue refunding bonds dated July 1, 1995, were issued for the Warren County School District Finance Corporation to refund a portion of 1987 and 1989 issues. The Commission's portion of the refunding issue was \$9,046,265 maturing February 1, 1996 through August 1, 2008, and carrying interest rates from 3.50% to 5.20%. The proceeds were placed in an escrow account to fund the debt service requirements for the Commission's portion of the 1987 and 1989 issues being refunded. Net savings to the Commission is \$726,085 and the present value of the savings is \$406,666 at a rate of 5.14%.

Revenue refunding bonds dated August 1, 1995, were issued for the Estill County School District Finance Corporation to refund a 1983 issue and a portion of a 1987 issue. The Commission's portion of the refunding issue was \$488,788 maturing August 1, 1996 through August 1, 2007, and carrying interest rates from 4.00% to 5.00%. The proceeds were placed in an escrow account to fund the debt service requirements for the Commission's portion of the 1987 issue being refunded. Net saving to the Commission is \$50,156 and the present value of the savings is \$38,110 at a rate of 5.0117%.

Revenue refunding bonds dated October 1, 1995, were issued for the Laurel County School District Finance Corporation to refund a portion of a 1987 issue and a portion of a 1989 issue. The Commission's portion of the refunding issue was \$412,663 maturing August 1, 1996 through August 1, 2008, and carrying interest rates from 4.40% to 4.60%. The proceeds were placed in an escrow account to fund the debt service requirements for the Commission's portion of the 1987 and 1989 issues being refunded. Net savings to the Commission is \$51,131 and the present value of the savings is \$38,139 at a rate of 4.5935%.

Revenue refunding bonds dated October 1, 1995, were issued for the Powell County School District Finance Corporation to refund a 1987 issue. The Commission's portion of the refunding issue was \$1,446,151 maturing June 1, 1996 through June 1, 2007, and carrying interest rates from 4.50% to 4.60%. The proceeds were placed in an escrow account to fund the debt service requirements for the Commission's portion of the 1987 issue being refunded. Net savings to the Commission is \$127,125 and the present value of the savings is \$103,574 at a rate of 4.5996%.

Revenue refunding bonds dated November 1, 1995, were issued for the Henderson County School District Finance Corporation to refund a 1989 issue. The Commission's portion of the refunding issue was \$2,411,996 maturing April 1, 1996 through April 1, 2009, and carrying interest rates from 4.40% to 4.75%. The proceeds were placed in an escrow account to fund the debt service requirements for the Commission's portion of the 1989 issue being refunded. Net

savings to the Commission is \$155,200 and the present value of the savings is \$120,044 at a rate of 4.7085%.

Revenue refunding bonds dated November 1, 1995, were issued for the Montgomery County School District Finance Corporation to refund a portion of 1988 and 1989 issues. The Commission's portion of the refunding issue was \$2,050,000 maturing April 1, 1996 through April 1, 2009, and carrying interest rates from 4.00% to 4.95%. The proceeds were placed in an escrow account to fund the debt service requirements for the Commission's portion of the 1988 and 1989 issues being refunded. Net savings to the Commission is \$175,085 and the present value of the savings is \$134,261 at a rate of 4.8140%.

Revenue refunding bonds dated December 15, 1995, were issued for the Fayette County School District Finance Corporation to refund portions of a September 1987, June 1988, August 1988, June 1989 and October 1990 issues. The Commission's portion of the refunding issue was \$14,025,599 maturing April 1, 1996 through October 1, 2010, and carrying interest rates from 4.50% to 5.25%. The proceeds were placed in an escrow account to fund the debt service requirements for the Commission's portion of the issues being refunded. Net savings to the Commission is \$1,274,129 and the present value of the savings is \$781,157 at a rate of 5.1910%.

Revenue refunding bonds dated January 1, 1996, were issued for the Green County School District Finance Corporation to refund a portion of a 1989 issue. The Commission's portion of the refunding issue was \$1,580,648 maturing May 1, 1996 through May 1, 2009, and carrying interest rates from 4.00% to 4.90%. The proceeds were placed in an escrow account to fund the debt service requirements for the Commission's portion of the 1989 issue being refunded. Net savings to the Commission is \$137,487 and the present value of the savings is \$106,635 at a rate of 4.5500%.

Revenue refunding bonds dated February 1, 1996, were issued for the Carlisle County School District Finance Corporation to refund a portion of a 1988 issue. The Commission's portion of the refunding issue was \$628,866 maturing May 1, 1996 through May 1, 2008, and carrying interest rates from 3.70% to 4.55%. The proceeds were placed in an escrow account to fund the debt service requirements for the Commission's portion of the 1988 issue being refunded. Net savings to the Commission is \$51,773 and the present value of the savings is \$41,671 at a rate of 4.3642%.

Revenue refunding bonds dated February 1, 1996, were issued for the Butler County School District Finance Corporation to refund a portion of a 1990 issue. The Commission's portion of the refunding issue was \$1,413,988 maturing May 1, 1996 through May 1, 2010, and carrying interest rates from 3.80% to 4.90%. The proceeds were placed in an escrow account to fund the debt service requirements for the Commission's portion of the 1990 issue being

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refunded. Net savings to the Commission is \$94,985 and the present value of the savings is \$72,404 at a rate of 4.7100%.

Revenue refunding bonds dated February 1, 1996, were issued for the Harrodsburg Independent School District Finance Corporation to refund a portion of a 1989 issue. The Commission's portion of the refunding issue was \$266,128 maturing April 1, 1996 through April 1, 2009, and carrying interest rates from 3.00% to 4.55%. The proceeds were placed in an escrow account to fund the debt service requirements for the Commission's portion of the 1989 issue being refunded. Net savings to the Commission is \$14,848 and the present value of the savings is \$11,654 at a rate of 4.5412%.

Revenue refunding bonds dated March 1, 1996, were issued for the Cumberland County School District Finance Corporation to refund a portion of a 1986 issue. The Commission's portion of the refunding issue was \$706,335 maturing June 1, 1996 through December 1, 2006, and carrying interest rates from 3.50% to 4.20%. The proceeds were placed in an escrow account to fund the debt service requirements for the Commission's portion of the 1986 issue being refunded. Net savings to the Commission is \$60,256 and the present value of the savings is \$48,500 at a rate of 4.1399%.

Revenue refunding bonds dated May 15, 1996, were issued for the Jessamine County School District Finance Corporation to refund a portion of a 1986 issue. The Commission's portion of the refunding issue was \$940,000 maturing June 1, 1997 through June 1, 2006, and carrying interest rates from 3.80% to 5.10%. The proceeds were placed in an escrow account to fund the debt service requirements for the Commission's portion of the 1986 issue being refunded. Net savings to the Commission is \$91,562 and the present value of the savings is \$87,292 at a rate of 4.8900%.

Revenue refunding bonds dated June 1, 1996, were issued for the Bullitt County School District Finance Corporation to refund a portion of a 1986 issue. The Commission's portion of the refunding issue was \$1,525,000 maturing June 1, 1997 through June 1, 2006, and carrying interest rates from 4.00% to 4.70%. The proceeds were placed in an escrow account to fund the debt service requirements for the Commission's portion of the 1986 issue being refunded. Net savings to the Commission is \$117,413 and the present value of the savings is \$112,308 at a rate of 4.5400%.

Revenue refunding bonds dated June 1, 1996, were issued for the Paris Independent School District Finance Corporation to refund a portion of a 1989 issue. The Commission's portion of the refunding issue was \$810,000 maturing September 1, 1996 through March 1, 2010, and carrying interest rates from 4.00% to 5.25%. The proceeds were placed in an escrow account to fund the debt service requirements for the Commission's portion of the 1989 issue being refunded. Net savings to the Commission is \$55,327 and the present value of the savings is \$36,844 at a rate of 5.4593%.

Revenue refunding bonds dated June 1, 1996 were issued for the Scott County School District Finance Corporation to refund a portion of a 1987 issue. The Commission's portion of the refunding issue was \$1,415,000 maturing August 1, 1996 through August 1, 2007, and carrying interest rates from 4.30% to 5.00%. The proceeds were placed in an escrow account to fund the debt service requirements for the Commission's portion of the 1987 issue being refunded. Net savings to the Commission is \$102,023 and the present value of the savings is \$75,025 at a rate of 4.9742%.

Revenue refunding bonds dated June 1, 1996, were issued for the Logan County School District Finance Corporation to refund a portion of a 1988 issue. The Commission's portion of the refunding issue was \$1,405,000 maturing February 1, 1997 through February 1, 2008, and carrying interest rates from 4.00% to 5.00%. The proceeds were placed in an escrow account to fund the debt service requirements for the Commission's portion of the 1988 issue being refunded. Net savings to the Commission is \$102,607 and the present value of the savings is \$81,542 at a rate of 5.0149%.

COMPONENT UNITS

Eastern Kentucky University issued \$8,615,000 Consolidated Educational Buildings Refunding Revenue Bonds, Series R, dated August 1, 1995, to refund in advance of maturity all Series M Bonds maturing on and after May 1, 1998. The net proceeds of \$8,442,143, after discounts and issuance cost of \$172,857, were deposited with an escrow agent. The net savings to the University is \$566,499 and the present value of the savings is \$439,153 at a rate of 4.96%.

Note 14

RELATED ORGANIZATIONS

The Commonwealth has several related organizations. The financial activities of these organizations are not included in the State's financial statements. They are the East Kentucky Corporation, West Kentucky Corporation, West Kentucky Economic Development Fund, Northern Kentucky Convention Center Corporation, Kentucky Employer's Mutual Insurance Authority and the Interstate Air Pollution Control Commission. The Commonwealth holds no economic interest in, nor has any financial responsibility for these organizations.

Note 15

LONG-TERM OBLIGATIONS

General Obligation bonds are issued through the State Property and Buildings Commission, subject to general referendum approval required by the Kentucky Constitution. General obligation bonds pledge the full faith, credit, and taxing power of the Commonwealth and denote application of specific or general tax revenues to provide payment of principal and interest requirements on the debt. No new issues of this type have been issued since 1965, and none are outstanding or authorized but unissued at June 30, 1996.

Revenue Bonds - General authorization for the use of revenue bonds is contained in Chapter 58 of the Kentucky Revised Statutes. Specific authority is contained in the legislation and related KRS chapters creating and empowering the various debt issuing entities. Reference to such legislation and laws is made throughout the following entity descriptions. Effective July 15, 1980, KRS 56.870 requires prior approval of debt financing projects by the Kentucky General Assembly sitting in regular or special sessions. Succeeding statutes establish the methods for this approval and the exemptions from it. The majority of new debt issues are approved through the appropriation act. Per KRS 56.873, effective July 15, 1980, revenue bonds having passed the above mechanisms, and not requiring State appropriations, must receive an "A" rating by Moody's Investors Service or the equivalent rating by another qualified rating agency prior to their sale.

Project revenue debt pledges only the revenues produced by the project so funded as security for repayment and does not directly obligate the Commonwealth. Kentucky's project revenue debt may be further classified by the purpose of the debt. Revenue debt issued by the Kentucky Housing Corporation, Kentucky Infrastructure Authority, Kentucky Higher Education Student Loan Corporation, Kentucky Economic Development Finance Authority, Kentucky Local Correctional Facilities Construction Authority, Kentucky Agricultural Finance Corporation, and Kentucky School Facilities Construction Commission is used as a financing mechanism for activities and facilities not used directly for State purposes. The tax-exempt status of such "municipal debt," whether issued by State or local governments, is used to provide financing for entities unable to bear the costs of private financing when the General Assembly deems such entities worthy of public assistance. The other category of revenue debt finances facilities used directly by State Government in daily activities such as roads, parks, office buildings, and educational facilities. The primary distinction between these categories is that the first type, with the exceptions of the Kentucky School Facilities Construction Commission, which succeeds the Kentucky School Building Authority, and the Kentucky Infrastructure Authority, which succeeds the Kentucky Pollution Abatement and Water Resources Finance Authority, requires no State funds of any type to provide "debt service," principal and interest payments, on the debt. The School Facilities Construction Commission supplements funds provided by local governments and school boards in varying percentages for debt service. The Kentucky Infrastructure Authority may accept appropriations made by the General Assembly, in addition to State and Federal grants, related to the purposes for which it was created. This distinction is important in analyzing the true level of "State" debt and the "burden" of that debt on State resources.

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The agencies and authorities that issue debt and their respective amounts of principal outstanding, net of discounts and defeased bonds, at June 30, 1996, are as follows (Expressed in Thousands):

General Long-Term Obligations Account Group	Principal Outstanding	Interest Rate	Annual Maturity To
Agency:			
State Property & Buildings Commission	\$ 1,158,556	2.4%-9.84%	2018
Turnpike Auth. of Kentucky	1,467,349	3.5%-9.7%	2015
Kentucky School Facilities Construction Commission	\$ 1,266,375		
Less: Local school district participation	<u>757,938</u>	<u>508,437</u>	<u>2.2% - 8.25%</u>
Total	<u>\$ 3,134,342</u>		2016

Future revenue bond debt service requirements, to be paid with State funds, at June 30, 1996, are as follows (Expressed in Thousands):

Year Ending June 30,	Principal	Interest	Totals
1997	\$ 161,414	\$ 172,145	\$ 333,559
1998	175,661	167,600	343,261
1999	187,540	157,865	345,405
2000	198,049	146,845	344,894
2001	187,886	146,382	334,268
Thereafter	<u>2,223,792</u>	<u>994,911</u>	<u>3,218,703</u>
	<u>\$ 3,134,342</u>	<u>\$ 1,785,748</u>	<u>\$ 4,920,090</u>

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Component Unit Revenue Bonds Payable	Principal Outstanding	Interest Rate	Annual Maturity To
Kentucky Housing Corporation*	\$ 857,784	3.625%-9.875%	2028
Kentucky Infrastructure Authority*	197,200	3.9%-8.4%	2018
Kentucky Higher Education Student Loan Corporation	307,640	3.9%-9.25%	2012
Kentucky Local Correctional Facilities Construction Authority*	42,225	3.75%-5.50%	2014
Kentucky Economic Development Finance Authority	91,312	5.4%	1999
University of Kentucky	332,279	2.5%-8.45%	2024
University of Louisville	155,850	3.0%-7.7%	2016
Eastern Kentucky University	67,090	3.0%-6.6%	2011
Western Kentucky University	57,054	2.6%-7.4%	2012
Murray State University	27,160	2.4%-8.0%	2016
Morehead State University	34,325	2.875%-7.15%	2014
Kentucky State University	23,115	3.0%-9.0%	2014
Northern Kentucky University	56,715	3.0%-8.3%	2021
Total Component Unit Revenue Bonds Payable	\$ 2,249,749		

*Amounts do not include unamortized premiums, discounts, or deferred loss or early retirement of debt.

Future revenue bond debt service requirements for bonds issued by the Commonwealth's Component Units, at June 30, 1996, are as follows (amounts expressed in thousands):

Year Ending June 30,	Principal	Interest	Totals
1997	\$ 113,314	\$ 121,857	\$ 235,171
1998	109,434	118,673	228,107
1999	196,991	113,106	310,097
2000	120,051	102,307	222,358
2001	110,400	96,468	206,868
Thereafter	1,599,559	803,147	2,402,706
	<u>\$ 2,249,749</u>	<u>\$ 1,355,558</u>	<u>\$ 3,605,307</u>

During the fiscal year ended June 30, 1996, the debt issuing entities described below sold revenue and revenue refunding bonds as follows:

Kentucky State Property and Buildings Commission

The State Property and Buildings Commission is composed of the Governor, Lieutenant Governor, Attorney General, Secretary of the Finance and Administration Cabinet, Secretary of the Revenue Cabinet, and Secretary of the Economic Development (formerly Commerce) Cabinet. The Commission is an independent agency of the Commonwealth created by KRS 56.450 and empowered upon application of any State agency to issue bonds in its own name to pay the costs of acquiring land and equipment, and the construction and equipping of buildings for the occupancy and/or use of said agencies.

During the fiscal year ended June 30, 1996, the Commission issued \$308,775,000 in revenue and revenue refunding bonds as follows:

\$39,900,000 (Project 57) in serial bonds maturing each November 1, 1995 through 2015 at 4.0% to 5.5%;

\$7,625,000 (Project 58) in serial bonds maturing each November 1, 1995 through 2007 at 5.7% to 7.0%; and

\$261,250,000 (Project 59) in serial bonds maturing each May and November 1, 1996 through 2015 at 4.5% and 6.75%.

Turnpike Authority of Kentucky

The Turnpike Authority of Kentucky was created in the 1960 regular session of the General Assembly under present KRS sections 175.410 through 175.990 as a body corporate and politic constituting a municipal corporation, political subdivision, and instrumentality of the Commonwealth. The Authority is composed of the Governor, Lieutenant Governor, Attorney General, Secretary of Transportation, Commissioner of Highways, State

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Highway Engineer, and Secretary of Economic Development. The Secretary of the Finance and Administration Cabinet currently serves as the Authority's Treasurer.

The Authority issued no bonds during the fiscal year ended June 30, 1996.

State Universities

The Board of Trustees of the University of Kentucky and the Boards of Regents of the University of Louisville, Eastern Kentucky University, Western Kentucky University, Murray State University, Morehead State University, Kentucky State University, and Northern Kentucky University are authorized under KRS 56.495 to issue debt for the purpose of constructing educational buildings and housing and dining facilities. In addition, the University of Louisville is specifically authorized to issue debt for educational buildings under KRS 64.860 but is limited to \$16 million of refunding debt.

During the fiscal year ended June 30, 1996, state supported universities issued \$22,770,000 in revenue and refunding revenue bonds as follows:

\$12,015,000, University of Kentucky, Consolidated Educational Buildings Revenue Bonds, Series O, with \$7,500,000 in serial bonds maturing each May 1, 1996 through 2006, and 2011 through 2013 at 5.0% and 5.7%; term maturities include \$2,665,000 due May 1, 2010 at 5.6%; and \$1,850,000 due May 1, 2015 at 5.75%;

\$2,140,000, University of Kentucky, Housing and Dining System Revenue Bonds, Series P, maturing serially each June 1, 1997 through 2016 at 4.85% to 5.3%; and

\$8,615,000, Eastern Kentucky University, Consolidated Educational Buildings Refunding Revenue Bonds, Series R, maturing serially each May 1, 1996 through 2007 at 4.8% to 4.875%.

Kentucky Housing Corporation

The Housing Corporation, established in 1972 under KRS Chapter 198A, is a municipal corporation and political subdivision of the Commonwealth governed by a board of directors comprised of the Secretary of the Finance and Administration Cabinet, Commissioner of the Department of Local Government, Secretary of the Revenue Cabinet, Attorney General, Secretary of the Economic Development Cabinet, Lieutenant Governor, and eight additional members appointed by the Governor. The Corporation is authorized to increase the supply of housing for persons of lower income by making or participating in insured construction loans, and making or participating in insured mortgage loans when financing is not available from private lenders under reasonably equivalent terms and conditions. The Corporation is limited to a \$1.125 billion total maximum principal value of debt outstanding.

During the fiscal year ended June 30, 1996, the Corporation issued or remarketed \$134,220,000 in Housing Revenue Bonds, as follows:

\$6,365,000, 1995 Series F, a refunding issue, with \$4,120,000 in serial bonds maturing each January and July 1, 2000 through 2008, at 4.35% to 5.4%, and \$2,245,000 in term bonds due July 1, 2017, at 5.95%;

\$18,635,000, 1995 Series G, with approximately \$2,800,000 applied to refunding Prior Bonds of the Corporation. A total of \$1,030,000 in serial bonds mature each January and July 1, 1997 through 1999, at 4.2% to 4.5%, and term maturities include \$4,515,000 due January 1, 2015, at 6.125%, \$7,640,000 due January 1, 2024, at 5.625% and \$5,450,000 due July 1, 2027, at 6.25% (not reoffered);

\$1,560,000, 1995 Series H, a refunding issue, with \$195,000 in serial bonds due July 1, 2005, at 4.9% and \$1,365,000 in term bonds due July 1, 2017, at 5.7%.

\$30,490,000, 1995 Series I, with approximately \$18,740,000 applied to refunding Prior Bonds of the Corporation. A total of \$6,335,000 in serial bonds mature each January and July 1, 1997 through 2008, at 4.0% to 5.45%, and term maturities include \$6,365,000 due July 1, 2016 at 5.8% and \$17,790,000 due July 1, 2027 at 5.85%;

\$7,000,000, 1995 Series E, a remarketed issue, with \$1,195,000 in serial bonds maturing each July 1, 1997 through 2005, at 4.0% to 5.05%, and July 1, 2008 at 5.45%. Term maturities include \$1,565,000 due July 1, 2015 at 5.8% and \$4,240,000 due July 1, 2026 at 5.85 (not reoffered). A portion of the Series I proceeds applies to refunding the remainder of 1995 Series E;

\$50,000,000, 1996 Series A, with approximately \$9,305,000 applied to refunding Prior Bonds of the Corporation. A total of \$8,645,000 in serial bonds mature each January and July 1, 1998 through 2008 at 4.40% to 5.85%, and term maturities include \$9,125,000 due July 1, 2015, at 6.25%, \$12,000,000 due July 1, 2028, at 6.375% (not reoffered), and \$20,230,000 due July 1, 2028 at 6.375%;

\$9,325,000, 1996 Series B, a refunding issue, bearing 3.65% per annum interest to the Tender Date as described below; and

\$10,845,000, 1996 Series C, bearing 3.7% annum interest to the Tender Date as described below.

Series B and C above are subject to mandatory tender on December 18, 1996, unless the Corporation designates any Business Day on or after October 1, 1996 and prior to December 18, 1996 as the Tender Date with respect to all or a portion of the Offered Bonds.

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Kentucky Infrastructure Authority

The Authority was created by House Bill 217, passed into law during the 1988 regular session of the Kentucky General Assembly, to assist governmental agencies in the State with respect to the construction and acquisition of infrastructure projects as defined in the legislation. Pursuant to this Act, which amends KRS Chapter 224A, all powers, duties, and obligations of the Kentucky Pollution Abatement and Water Resources Finance Authority, including administration of debt service on revenue bonds previously issued by the Authority, are transferred to the Kentucky Infrastructure Authority, which is established as a body corporate and politic, constituting a public corporation and a governmental agency and instrumentality of the State.

During the fiscal year ended June 30, 1996, the Authority issued \$18,550,000 in revenue bonds as follows:

\$15,455,000, Wastewater Revolving Fund Program Revenue Bonds, 1995 Series D, with \$13,155,000 in serial bonds maturing each June 1, 1996 through 2013, at 3.8% to 5.5%, and term bonds of \$2,300,000 due June 1, 2015, at 5.75%;

\$2,175,000, Solid Waste Revolving Fund Program Revenue Bonds, 1995, Series C, with \$1,735,000 in serial bonds maturing each June 1, 2003 through 2013, at 4.75% to 5.5%, and \$440,000 in term bonds due June 1, 2015, at 5.9%; and

\$920,000, Solid Waste Fund Program Revenue Bonds, 1995 Series K Taxable, in serial bonds maturing each June 1, 1996 through 2002, at 6.2% to 6.8%.

Kentucky Higher Education Student Loan Corporation

The Corporation is empowered by KRS Chapter 164A to make and reinsure student loans with the United States of America, pursuant to the Federal Higher Education Act of 1965, and as a body corporate and politic acts as a financing authority to assure a secondary market for insured student loans. The Corporation is governed by a seven member board of directors consisting of the Chairman of the Council on Higher Education, the Secretary of the Finance and Administration Cabinet, the Chairman of the Kentucky Higher Education Assistance Authority, and four members chosen from the general public. The Corporation is limited to a maximum principal debt outstanding of \$553 million.

During the fiscal year ended June 30, 1996, the Corporation issued \$15,980,000, Insured Student Loan Revenue Bonds, as follows:

\$12,230,000, 1995 Series A, maturing serially each June 1, 1997 through 1999, at 4.2% to 4.6%, December 1, 1999, at 4.6%, June 1, 2000, at 4.7%, and June 1, 2002, at 4.9%;

\$750,000, 1995 Series B, due June 1, 2003, at 5.15%; and

\$3,000,000, 1995 Series C, due June 1, 2003, at 5.45%.

All proceeds of Series A, B, and C above are to be applied to refunding Prior Bonds of the Corporation.

Kentucky Local Correctional Facilities Construction Authority

The Authority is a body corporate and politic as well as an agency and instrumentality of the Commonwealth created in 1982 pursuant to KRS 441.605 through 441.695, as amended, to provide additional and alternative methods for acquiring, constructing, improving or repairing, and financing both regional and local jail facilities.

The Authority issued no bonds during the year ended June 30, 1996.

Kentucky School Facilities Construction Commission

By act of the 1985 Extraordinary Session of the General Assembly, the Kentucky School Facilities Construction Commission (KSFCC) was created as the successor agency to the Kentucky School Building Authority (KSBA) and empowered pursuant to KRS 157.640 with all rights of successorship necessary to assure all legal and contractual functions and liabilities associated with the outstanding bonds issued in the name of KSBA, including refunding of then existing KSBA debt.

The Commission is an independent corporate agency and instrumentality of the Commonwealth established by Act of the 1985 Extraordinary Session of the General Assembly, now codified as KRS 157.611 through 157.640 and empowered therein to: (1) act on behalf of school districts to issue bonds in the name of the Commission and to enter into lease agreements with local boards of education to finance construction of new facilities or major renovation of existing facilities; (2) enter into agreements which may provide for a percentage discount, on a biennially renewable basis, of annual lease agreements due the Commission for those districts which participate; and (3) enter into lease agreements with the Department of Education to build State-owned facilities operated by the Department of Education.

During the fiscal year ended June 30, 1996, KSFCC sold fifty-two (52) school building revenue and revenue refunding bond issues having aggregate state participation of \$56,466,935 maturing through June 1, 2016, at interest rates of 3.0% to 5.9%. These bonds fund construction and renovation projects in county and independent school districts throughout the Commonwealth.

Due to the length of the listing, the reader is referred to the detail Schedule of Bonds Outstanding at June 30, 1996, which is contained in the publication titled SUPPLEMENTARY INFORMATION to the Kentucky Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 1996. Copies of this report are available from the Division of Accounts, Financial Reporting Branch, 483 Capitol Annex, Frankfort, Kentucky 40601.

Kentucky Agricultural Finance Corporation

The Kentucky Agricultural Finance Corporation is a public corporation and governmental agency of the Commonwealth estab-

COMMONWEALTH OF KENTUCKY
Notes to Combined Financial Statements
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lished by Act of the 1984 General Assembly for the purpose of "improving and promoting the health, welfare, and prosperity of the people of the Commonwealth through the stimulation of existing agricultural ventures." The Authority's bond program is designed to help lender banks and other financial institutions assist eligible farmers in obtaining low interest loans through the issuance of tax-exempt agricultural revenue bonds. The Authority's debt does not constitute a legal or moral obligation of the Commonwealth, and this debt is not included in these general purpose financial statements.

The Authority issued no bonds during the year ended June 30, 1996.

Kentucky Economic Development Finance Authority

The Kentucky Economic Development Finance Authority (KEDFA) established in 1958 under KRS Chapter 154, is an independent agency of State Government which operates in close cooperation with the Secretary of the Economic Development Cabinet to promote the industrial development of Kentucky.

The Authority issued no revenue bonds that constitute a legal obligation of the Commonwealth during the fiscal year ended June 30, 1996.

During this same reporting period, KEDFA did issue \$17,735,860 in Industrial Revenue Bonds which do not constitute a general debt, liability, or moral obligation of the Commonwealth. Accordingly, these general purpose financial statements do not include any assets or liabilities related to the issuance of these bonds.

NOTES PAYABLE:

At June 30, 1996, the following entities had notes payable as follows:

Kentucky Lottery Corporation

On May 27, 1993, the Corporation borrowed \$9,500,000 to refinance the remaining balances of two loans, \$6,500,000 and \$3,000,000, which were originally incurred in April 1991 and October 1989, respectively. The terms of the loans require quarterly principal payments of \$500,000 with an annual interest of 3.46%. The remaining balance of \$500,000 will be paid during the year ended June 30, 1997 and has been recorded as current in the balance sheet as of June 30, 1996.

Kentucky Center for the Arts Corporation

The Corporation has a \$50,000, non-interest bearing note with scheduled principal payments of \$25,000 in each of the next two fiscal years.

Universities

The University of Kentucky Healthcare Collection Service, borrowed \$105,000 from University of Kentucky Hospital for a computer system upgrade to assist its collection process. The \$98,000

balance on this non-interest bearing note is payable in monthly installments of \$1,750 which retire principal of \$21,000 during fiscal years 1997 through 2000, and \$14,000 during fiscal year 2001.

Morehead State University reported a \$558,705 note payable to a company repayable in monthly installments of \$4,904, plus interest at prime (currently 8.75%), to December, 2005.

The College Heights Foundation, reported a \$45,317 note payable to Ogden College Foundation due in monthly installments of \$11,853, including interest at 8.625%, and secured by real estate under capital lease to Western Kentucky University. The note matures during fiscal year 1997.

Northern Kentucky University reported \$1,285,000 in notes payable for various installment purchase contracts to acquire property and equipment, to include \$379,512 during fiscal 1996. Payments, including interest, through June 30, 2001, total \$1,438,000.

COMMONWEALTH OF KENTUCKY
Notes to Combined Financial Statements
June 30, 1996

Future debt service requirements for aggregate Notes Payable at June 30, 1996, are as follows (amounts expressed in thousands):

Year Ending June 30,	Principal	Interest	Totals
1997	\$ 1,050	\$ 118	\$ 1,168
1998	385	87	472
1999	378	64	442
2000	309	40	349
2001	106	27	133
Thereafter	264	53	317
	<u>\$ 2,492</u>	<u>\$ 389</u>	<u>\$ 2,881</u>

Changes in General Long-Term Obligations

Changes in general long-term obligations (Expressed in Thousands) for the fiscal year ended June 30, 1996, are summarized as follows:

	Compensated Absences	Capital Leases	State Supported Revenue Bonds	Judgements & Contingent Liabilities	Unfunded Employer Pension Contributions	Totals
Balance at June 30, 1995	\$ 157,830	\$ 1,296	\$ 3,133,332	\$ 148,014	\$ 127,483	\$ 3,567,955
Obligations Incurred	120,659	350	365,242	332,576	10,713	829,540
Obligations Retired	<u>(107,740)</u>	<u>(721)</u>	<u>(364,232)</u>	<u>(33,077)</u>		<u>(505,770)</u>
Balance at June 30, 1996	<u>\$ 170,749</u>	<u>\$ 925</u>	<u>\$ 3,134,342</u>	<u>\$ 447,513</u>	<u>\$ 138,196</u>	<u>\$ 3,891,725</u>

COMMONWEALTH OF KENTUCKY
Notes to Combined Financial Statements
June 30, 1996

Note 16

SEGMENT INFORMATION

Segment financial information for the Commonwealth's Enterprise Funds for the year ended June 30, 1996, is presented below (Expressed in Thousands):

**Primary Government
Enterprise Funds**

	State Parks	Kentucky Lottery Corporation	Industries for the Blind	Horse Park	Insurance Administration	Totals
	Recreation and Lodging	Lottery Operations	Light Industry	Equine Museum	Insurance	
Goods and Services Provided						
Operating Revenues	\$ 42,663	\$ 542,845	\$ 1,708	\$ 3,928	\$ 322,640	\$ 913,784
Depreciation and Amortization Expense	4,311	4,277	40	956	548	10,132
Operating Income (Loss)	(41,785)	151,552	(691)	(2,494)	(147,238)	(40,656)
Income (Loss) Before Operating Transfers and Extraordinary Item	(41,770)	153,515	(691)	(2,500)	(143,554)	(35,000)
Operating Transfers:						
In	40,637		862	1,430	1,230	44,159
Out	(927)	(147,000)			(4,169)	(152,096)
Net Income (Loss)	(2,060)	6,515	171	(1,070)	(146,493)	(142,937)
Current Contributed Capital: Contributions	18,733			303		19,036
Fixed Assets:						
Additions	15,770	1,818	10	227	820	18,645
Deletions	205	399	18	14	102	738
Net Working Capital	5,612	16,076	456	502	(52,582)	(29,936)
Total Assets	111,381	355,457	1,103	15,798	568,125	1,051,864
Bonds and Other Long-Term Liabilities:						
Payable from Operating Revenue and Operating Transfers-in	3,067	324,727	22	158	1,467,252	1,795,226
Total Equity	102,498	23,292	1,000	15,092	(1,097,044)	(955,162)

COMMONWEALTH OF KENTUCKY
Notes to Combined Financial Statements
June 30, 1996

**CONDENSED STATEMENT
INFORMATION**

**Condensed Statement Information
for the Commonwealth's Discretely
Presented Component Units.
(Expressed in Thousands)**

	Kentucky State Fair Board	Kentucky Center for the Arts	Kentucky Educational Television Authority	Kentucky Economic Development Finance Authority	Kentucky Higher Education Assistance Authority
	Facility Management	Facility Management	Educational Television Programming	Debt Issuance	Insuring Student Loans
Goods and Services Provided					
Assets					
Current Assets	\$ 5,556	\$ 1,435	\$ 4,359	\$ 11,181	\$ 28,078
Property, Plant and Equipment (net)	114,908	24,266	10,838	153	1,955
Other Assets	2,074	933	5,930	190,682	35,331
Total Assets	<u>\$ 122,538</u>	<u>\$ 26,634</u>	<u>\$ 21,127</u>	<u>\$ 202,016</u>	<u>\$ 65,364</u>
Liabilities					
Current Liabilities	\$ 4,077	\$ 1,405	\$ 5,290	\$ 1,363	\$ 15,233
Other Liabilities		153	20,369		1,598
Revenue Bonds				91,312	
Total Liabilities	<u>4,077</u>	<u>1,558</u>	<u>25,659</u>	<u>92,675</u>	<u>16,831</u>
Fund Equity					
Contributed Capital	74,748	21,442			
Retained Earnings:					
Reserved for Revenue					
Bond Retirement				45,173	42,525
Unreserved	43,713	3,634	(4,532)	64,168	6,008
Total Equity	118,461	25,076	(4,532)	109,341	48,533
Total Liabilities and Equity	<u>\$ 122,538</u>	<u>\$ 26,634</u>	<u>\$ 21,127</u>	<u>\$ 202,016</u>	<u>\$ 65,364</u>
Operating Revenues	\$ 25,192	\$ 3,175	\$ 3,283	\$ 11,408	\$ 10,576
Operating Expenses:					
Operating and Other Expenses	24,039	6,466	17,955	6,077	39,326
Depreciation & Amortization	4,811	1,179	3,318	268	537
Operating Income (loss)	<u>(3,658)</u>	<u>(4,470)</u>	<u>(17,990)</u>	<u>5,063</u>	<u>(29,287)</u>
Nonoperating Revenues (expenses)	770	2,846	(503)		385
Transfers:					
From Primary Government	707	1,541	16,320		28,688
From Component Units					1,500
To Primary Government	(371)		(16)		(494)
To Component Units					
Net Income (Loss)	<u>(2,552)</u>	<u>(83)</u>	<u>(2,189)</u>	<u>5,063</u>	<u>(1,208)</u>
Depreciation on Fixed Assets					
Acquired by Capital Grants	4,131	789			
Retained Earnings - July 1, 1995	42,134	2,928	(2,343)	104,278	49,741
Retained Earnings - June 30, 1996	<u>\$ 43,713</u>	<u>\$ 3,634</u>	<u>\$ (4,532)</u>	<u>\$ 109,341</u>	<u>\$ 48,533</u>

COMMONWEALTH OF KENTUCKY
Notes to Combined Financial Statements
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Kentucky Higher Education Student Loan Corporation	Kentucky Educational Savings Plan Trust	Kentucky Housing Corporation	Kentucky Infrastructure Authority	Kentucky Agricultural Finance Corporation	Kentucky Grain Insurance Corporation	Kentucky Local Correctional Facilities Construction Authority	Totals
Student Loans	Investment Management	Debt Issuance	Debt Issuance	Debt Issuance	Insurance/ Grain Warehousemen Bond	Debt Issuance	
\$ 56,147	\$ 343	\$ 254,429	\$ 85,077	\$ 267	\$ 1,791	\$ 9,130	\$ 457,793
1,218		14,276					167,614
305,617	4,251	811,443	259,093	246	2,593	9,283	1,627,476
<u>\$ 362,982</u>	<u>\$ 4,594</u>	<u>\$ 1,080,148</u>	<u>\$ 344,170</u>	<u>\$ 513</u>	<u>\$ 4,384</u>	<u>\$ 18,413</u>	<u>\$ 2,252,883</u>
\$ 16,761	\$ 4,594	\$ 74,988	\$ 11,528	\$	\$ 307	\$ 1,775	\$ 137,321
299,730		816,074					1,137,924
			184,066			40,395	315,773
<u>316,491</u>	<u>4,594</u>	<u>891,062</u>	<u>195,594</u>		<u>\$ 307</u>	<u>42,170</u>	<u>1,591,018</u>
							96,190
40,457		151,001	148,576				427,732
6,034		38,085		513	4,077	(23,757)	137,943
46,491		189,086	148,576	513	4,077	(23,757)	661,865
<u>\$ 362,982</u>	<u>\$ 4,594</u>	<u>\$ 1,080,148</u>	<u>\$ 344,170</u>	<u>\$ 513</u>	<u>\$ 4,384</u>	<u>\$ 18,413</u>	<u>\$ 2,252,883</u>
\$ 32,823	\$	\$ 76,763	\$ 49,846	\$	\$ 311	\$ 4,830	\$ 218,207
25,806	494	64,532	15,596		283	829	201,403
1,040		1,473	324			62	13,012
<u>5,977</u>	<u>(494)</u>	<u>10,758</u>	<u>33,926</u>		<u>28</u>	<u>3,939</u>	<u>3,792</u>
		(82)		3		(1,713)	1,706
	494		10,537				56,287
							1,500
							(881)
<u>(1,500)</u>							<u>(1,500)</u>
4,477		10,676	44,463	3	28	2,226	60,904
							4,920
42,014		178,410	104,113	510	4,049	(25,983)	499,851
<u>\$ 46,491</u>	<u>\$</u>	<u>\$ 189,086</u>	<u>\$ 148,576</u>	<u>\$ 513</u>	<u>\$ 4,077</u>	<u>\$ (23,757)</u>	<u>\$ 565,675</u>

COMMONWEALTH OF KENTUCKY
Notes to Combined Financial Statements
June 30, 1996

CONDENSED STATEMENT INFORMATION

Condensed Balance Sheet
University and College Funds
(Expressed in Thousands)

	University of Kentucky	University of Louisville	Others	Totals
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 166,833	\$ 25,213	\$ 74,686	\$ 266,732
Investments, Net of Amortization	424,537	160,634	122,432	707,603
Receivables, Net:				
State Agencies	671		4,730	5,401
Others	124,040	41,786	38,758	204,584
Interfund Receivables	39,818		11,869	51,687
Inventories	12,876	1,374	9,980	24,230
Land	26,139	20,967	17,836	64,942
Improvements Other Than Buildings	34,578		24,892	59,470
Buildings and Improvements	731,862	361,242	635,436	1,728,540
Machinery and Equipment	309,128	81,473	160,190	550,791
Library Books	74,377	46,574	90,065	211,016
Livestock			334	334
Construction in Progress	86,481		62,177	148,658
Other Assets	2,092	2,773	22,077	26,942
	<u>2,092</u>	<u>2,773</u>	<u>22,077</u>	<u>26,942</u>
Total Assets	<u>\$ 2,033,432</u>	<u>\$ 742,036</u>	<u>\$ 1,275,462</u>	<u>\$ 4,050,930</u>
<u>LIABILITIES AND FUND EQUITY</u>				
Liabilities:				
Accounts Payable:				
State Agencies	\$ 4,265	\$	\$ 1,037	\$ 5,302
Others	28,853	28,067	8,713	65,633
Accrued Liabilities	41,845		15,174	57,019
Interfund Payables	39,818		11,869	51,687
Capital Lease Obligations	34,101	8,454	43,283	85,838
Notes Payable	98		1,844	1,942
Bonds Payable	332,279	155,850	265,459	753,588
Amounts Held in Custody for Others	438		3,254	3,692
Deposits and Advance Payments	137	15,860	1,120	17,117
Deferred Revenue	11,947	11,271	9,553	32,771
Other Liabilities	36,233	894	1,234	38,361
Total Liabilities	<u>530,014</u>	<u>220,396</u>	<u>362,540</u>	<u>1,112,950</u>
Fund Equity:				
Investment in Fixed Assets	907,874	352,143	682,013	1,942,030
Fund Balance:				
Reserved for:				
Encumbrances	1,508	6,459	3,978	11,945
Capital Outlay	62,141	11,522	86,502	160,165
Restricted Gifts, Grants, and Contracts	373,755	88,433	123,372	585,560
Unreserved:				
Designated for Universities and Colleges	158,140	63,083	17,057	238,280
Total Fund Equity	<u>1,503,418</u>	<u>521,640</u>	<u>912,922</u>	<u>2,937,980</u>
Total Liabilities and Fund Equity	<u>\$ 2,033,432</u>	<u>\$ 742,036</u>	<u>\$ 1,275,462</u>	<u>\$ 4,050,930</u>

COMMONWEALTH OF KENTUCKY
Notes to Combined Financial Statements
June 30, 1996

Condensed Statement of Changes in Fund Balances
University and College Funds
(Expressed in Thousands)

	University of Kentucky	University of Louisville	Others	Totals
Total Revenues and Other Additions	\$ 813,196	\$ 281,988	\$ 429,072	\$ 1,524,256
Total Expenditures and Other Deductions	1,031,032	376,808	606,873	2,014,713
Transfers from (to) Primary Government	353,767	158,050	239,542	751,359
Net Increase for Year	135,931	63,230	61,741	260,902
Fund Balance and Other Credits, Beginning, As Restated	1,367,487	458,410	851,181	2,677,078
Fund Balance and Other Credits, Ending	<u>\$ 1,503,418</u>	<u>\$ 521,640</u>	<u>\$ 912,922</u>	<u>\$ 2,937,980</u>

Condensed Statement of Current Funds Revenues, Expenditures and Other Changes
University and College Funds
(Expressed in Thousands)

	University of Kentucky	University of Louisville	Others	Totals
Total Revenues	\$ 515,236	\$ 217,945	\$ 325,527	\$ 1,058,708
Expenditures:				
Education and General	546,143	291,361	466,081	1,303,585
Auxiliary Enterprises and Hospitals	234,482	40,023	50,590	325,095
Total Expenditures	780,625	331,384	516,671	1,628,680
Mandatory Transfers (Net)	33,732	14,524	34,117	82,373
Total Expenditures and Mandatory Transfers	814,357	345,908	550,788	1,711,053
Other Transfers and Additions	329,235	142,774	232,908	704,917
Non-Mandatory Transfers (Net)	41,175	13,800	6,416	61,391
Additions (Deductions)	7,231	8,182	1,765	17,178
Total Other Transfers and Additions (Deductions)	377,641	164,756	241,089	783,486
Net Increase in Fund Balances	<u>\$ (3,830)</u>	<u>\$ 9,193</u>	<u>\$ 2,996</u>	<u>\$ 8,359</u>

Note 17

COMMITMENTS AND CONTINGENCIES

Litigation - The Commonwealth, its units and employees are parties to numerous legal proceedings, many of which normally occur in governmental operations. The legal proceedings are not, in the opinion of the Attorney General, likely to have a material adverse impact on the Commonwealth's financial position.

In addition, the Commonwealth and its units are involved in certain other legal proceedings which, if decided adversely to the Commonwealth, may require the Commonwealth to make material future expenditures for expanded services or capital facilities or may impair future revenue sources or may require the refund of prior collections. It is neither possible to determine the outcome of these proceedings nor to estimate the possible effects adverse decisions may have on the future expenditures or revenue sources of the Commonwealth.

The Commonwealth is involved in litigation concerning the classification of state employees as being exempt from overtime provisions of the Fair Labor Standards Act. The ultimate outcome of the litigation cannot presently be determined. The Attorney General's Office had indicated that probable payments could be significant; however, the total amount to be paid is not reasonably estimable. Therefore, except for liability related to the initial plaintiffs, no provision for any liability that may result upon adjudication of this and similar cases has been made in the accompanying financial statements.

Federal Grants - The Commonwealth receives significant financial assistance from the U.S. Government in the form of grants and Federal revenue sharing entitlements. Entitlement to these resources is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable Federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. Any disallowances as a result of these audits become a liability of the Commonwealth.

Leases - The Commonwealth has entered into various operating leases for land and buildings. All leases contain termination clauses providing for the cancellation after 30, 60, or 90 days written notice to the lessors. In addition, all leases contain appropriation clauses indicating that continuation of the lease is subject to funding by the legislature. It is expected that in the normal course of business most of these leases will be replaced by similar leases. Primary Government expenditures for rent under leases for the years ended June 30, 1996 and 1995, amounted to \$35.7 million and \$30.9 million, respectively. The operating leases of the Commonwealth do not contain escalation clauses for rental or expense which would require adjustment to be in compliance with GASB Statement 13.

Sick Leave - It is the policy of the Commonwealth to record the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee is absent due to illness, injury, or related family death, there was no liability for sick leave at June 30, 1996. The estimated accumulated amount of unused sick leave at that date for the governmental and proprietary funds was \$230,079,949 and \$14,051,170, respectively.

Construction Projects - The Transportation Cabinet, at June 30, 1996, has contractual commitments of approximately \$684,774,000, for the construction of numerous highway projects. It is anticipated that these projects will be funded with approximately 35% State funds, 43% Federal funds, and the remaining 22% with proceeds from the sale of revenue bonds.

Note 18

SUBSEQUENT EVENTS

The debt issuing entities of the Commonwealth issued or agreed to administer State participation in debt service payments for revenue bonds sold after June 30, 1996, and prior to December 30, 1996, and reported other subsequent events for the same period, as described below.

State Universities

On September 5, 1996, Western Kentucky University issued \$3,000,000 of Housing and Dining System Revenue Bonds, Series M. The proceeds will be used to reimburse the Current Unrestricted Fund for amounts paid for renovation of existing campus housing buildings. Serial bonds mature each December 1, 1996 through 2025, at 5.5%.

On December 18, 1996, the University of Louisville issued \$15,250,000 in Consolidated Educational Building Refunding Bonds, Series G. The bonds mature serially and annually each May 1, 1997 through 2007 at 4.25% to 4.75%.

Kentucky Housing Corporation

On August 22, 1996, the Board of Directors authorized the development of a financing plan for the replacement refunding and new issuance of Housing Revenue Bonds. The total financing of approximately \$50,000,000 is expected to be completed in October 1996. The proceeds of the transaction will be used to finance mortgage loans for persons and families of lower and moderate income.

Bonds dated June 27, 1996, include:

\$1,500,000, 1996 Series C (remarketed), with term maturities of \$675,000 due July 1, 2022, at 6.25%, and \$825,000 due July 1, 2028, at 6.3%.

COMMONWEALTH OF KENTUCKY
Notes to Combined Financial Statements
June 30, 1996

Bonds dated September 1, 1996, include:

\$15,355,000, 1996 Series D, with term maturities of \$2,400,000 due July 1, 2006, at 5.05%, \$2,660,000 due July 1, 2007, at 5.2%, \$7,710,000 due July 1, 2013, at 5.8%, and \$2,585,000 due July 1, 2017, at 5.95%,

\$23,130,000, 1996 Series E, with term bonds due January 1, 2028, at 6.3%, and

\$10,015,000, 1996 Series F, with term bonds due July 1, 2010, at 7.21%.

Kentucky Higher Education Student Loan Corporation

On September 12, 1996, the Corporation issued \$27,500,000 of Insured Student Loan Revenue Bonds to continue its student loan finance program. The \$25,000,000 1996 Series A Bonds are scheduled to mature on June 1, 2026, and bear interest rates that change weekly based on specified indices. The \$2,500,000 1996 Series B Bonds are scheduled to mature on June 1, 2003, and bear interest rates at 5.15%.

Kentucky Educational Television

KET has agreed to provide contractual services to the Public Broadcasting Service (PBS) for a five year period beginning subsequent to June 30, 1996. The services to be provided include production of two video series targeted at assisting individuals planning to take the revised GED exam. In consideration for these services, KET will receive approximately \$5,300,000 over the five year period according to the approved budget summary.

Kentucky Lottery Corporation

The Corporation is in the process of securing an agreement to borrow up to \$6,787,000 from a financial institution. The proceeds will be used to fund the renovation of real estate purchased during the year ended June 30, 1996 to be used as new corporate headquarters. It is expected that the balance under this agreement will be drawn as needed for such renovations, with repayment to begin upon occupancy which is expected during the year ending June 30, 1998.

Kentucky Retirement Systems

In accordance with KRS 78.534, effective August 1, 1996, all former circuit clerks or former deputy clerks who were vested in the Kentucky Employees Retirement System and who had not yet begun to draw benefits, and all circuit clerks or deputy clerks thereafter taking office will participate in the County Employees Retirement System. Therefore, the Kentucky Employees Retirement System was required to transfer for each member affected, a dollar amount equal to the member's and employer's contribution from the date made to the date transferred at the actuarially assumed interest rate of the Kentucky Employees Retirement System in effect at the time the contributions were originally made.

The actual amounts transferred in November 1996 were \$12,291,086 in member contributions and \$34,578,917 in employer contributions. At the time of the transfer, the actuarially determined liability associated with these transfers had not yet been determined.

Workers' Compensation Funding Commission and Labor Cabinet - Special Fund

As the result of the special session of the Kentucky General Assembly, Governor Patton signed into law on December 12, 1996, legislation that significantly changes the workers' compensation system and directly impacts the Funding Commission and Special Fund.

The Funding Commission will continue to collect assessments for the payment of Special Fund claims filed through December 12, 1996. Payments for claims filed as of December 12, 1996, are expected to continue through 2018. The Funding Commission will continue to collect assessments for the payment of Special Fund claims until these claims are paid in full.

The Special Fund will continue to process payments for claims filed as of December 12, 1996. The Special Fund will not process new claims after December 12, 1996. Payment of claims filed as of December 12, 1996, is expected to continue through 2018.

Kentucky Public Employees Deferred Compensation Authority

The Small Business Job Protection Act of 1996 (P.L. 104-188) makes a number of favorable changes to Internal Revenue Code, Section 457. Among them is Section 1448 of the Act which amends Section 457 by removing the requirement that plan assets be available for government creditors, and adds a requirement that plan assets be held in such a way as to identify and protect the employees' interest.

Section 457 now requires that the assets of a government employees deferred compensation plan be held in a trust, custodial account or qualifying insurance contract that is held for the exclusive benefit of participants.

Existing plans (including additional contributions to such plans) have until January 1, 1999, to create a trust or otherwise comply with the new requirements.

Kentucky School Facilities Construction Commission

The Commission administers State participation in the debt service payments of local public school district revenue bonds issued subsequent to June 30, 1996, and maturing as to principal through 2016 as follows:

COMMONWEALTH OF KENTUCKY
Notes to Combined Financial Statements
June 30, 1996

School District	Sale Date	Principal at Issue	State Share	Interest Rate
Campbell County	07/01/96	\$ 7,700,000	\$ 655,882	4.875-5.6%
Casey County	07/01/96	1,750,000	594,645	4.6-5.8%
Elizabethtown Independent	07/02/96	920,000	329,414	4.3-5.75%
Taylor County	07/02/96	780,000	185,180	5.125-6.0%
Meade County	07/03/96	4,350,000	535,544	5.05-6.0%
Grant County	07/04/96	330,000	277,588	4.25-5.9%
Madison County	07/08/96	5,155,000	777,145	5.65%
Middlesboro Independent	07/08/96	865,000	289,923	4.2-6.1%
Corbin Independent	07/09/96	895,000	227,435	5.375-5.5%
Hardin County	07/09/96	4,665,000	1,854,272	4.0-6.0%
Pulaski County	07/09/96	1,400,000	518,732	4.2-5.9%
Estill County	07/11/96	8,790,000	785,966	5.5-5.875%
Nelson County	07/11/96	4,290,000	813,649	4.0-5.8%
Paintsville Independent	07/12/96	550,000	125,448	4.55-5.7%
Barren County	07/15/96	3,710,000	708,416	4.0-5.6%
Menifee County	07/16/96	245,000	245,000	4.75-5.8%
Butler County	07/24/96	4,460,000	3,698,346	5.5-5.55%
Bullitt County	08/14/96	2,000,000	945,194	3.75-5.4%
Washington County	08/28/96	255,000	205,803	4.5-5.6%
Hickman County	09/04/96	170,000	170,000	5.15-5.75%
Cumberland County	09/06/96	235,000	127,067	4.5-5.7%
Bath County	09/09/96	185,000	185,000	5.0-5.7%
Nicholas County	09/10/96	100,000	100,000	5.3-5.7%
Boyd County	09/10/96	425,000	425,000	4.6-5.7%
Carlisle County	09/11/96	165,000	165,000	5.0-5.75%
Frankfort Independent	09/12/96	2,675,000	1,919,381	4.375-5.0%
Magoffin County	09/12/96	260,000	217,373	4.75-5.75%
Woodford County	09/12/96	215,000	154,222	4.875-5.65%
Clark County	09/13/96	255,000	255,000	4.5-5.55%
Fairview Independent	09/13/96	120,000	104,999	5.0-5.75%
Knox County	09/13/96	425,000	378,225	5.15-5.3%
Walton-Verona Ind.	09/13/96	175,000	50,000	4.8-5.65%
Fort Thomas Independent	09/16/96	100,000	100,000	4.7-5.7%
Leslie County	09/16/96	240,000	240,000	5.0-5.375%
Letcher County	09/18/96	3,295,000	2,207,126	4.375-4.65%
Woodford County	10/23/96	7,675,000	1,231,197	4.2-5.6%
Carlisle County	10/30/96	145,000	65,758	5.1-5.4%
Floyd County	11/27/96	3,460,000	1,222,675	4.5-4.55%
Wolfe County	12/04/96	1,385,000	412,504	3.7-5.0%
Metcalfe County	12/10/96	285,000	218,521	4.5-5.15%
Franklin County	12/11/96	4,245,000	3,372,720	4.45-4.7%
Bracken County	12/12/96	187,000 *	187,000 *	NIC 5.4344% *
Bracken County	12/12/96	515,000	466,203	4.8%
Magoffin County	12/12/96	850,000	850,000	4.2-5.0%
Nelson County	12/17/96	1,020,000	427,400	4.0-4.6%
Totals		\$ 81,917,000	\$ 29,025,953	

* Amounts are estimated, pending final participation agreements and debt service schedules.

COMMONWEALTH OF KENTUCKY
Notes to Combined Financial Statements
June 30, 1996

Audited financial statements for component units may be requested at the following addresses:

Bluegrass State Skills Corporation
Capital Plaza Tower
500 Mero Street
Frankfort, Kentucky 40601

Kentucky Turnpike Authority
Room 267, Capitol Annex Building
Frankfort, Kentucky 40601

Kentucky Center for the Arts
5 Riverfront Plaza
Louisville, Kentucky 40202-2989

Kentucky Economic Development Finance Authority
Capital Plaza Tower
500 Mero Street
Frankfort, Kentucky 40601

Kentucky Higher Education Student Loan Corporation
10180 Linn Station Road
P.O. Box 24266
Louisville, Kentucky 40224-0266

Kentucky Housing Corporation
1231 Louisville Road
Frankfort, Kentucky 40601

Kentucky Retirement Systems
Perimeter Park West
1260 Louisville Road
Frankfort, Kentucky 40601

Teachers' Retirement System
479 Versailles Road
Frankfort, Kentucky 40601

University of Louisville
Belknap Campus
Controller's Office
Louisville, Kentucky 40292

Western Kentucky University
Vice President for Finance and Administration
1 Big Red Way
Bowling Green, Kentucky 42101-3576

Murray State University
Financial Management and Planning
Murray, Kentucky 42071

Kentucky State University
Office of Administrative Affairs
East Main Street
Frankfort, Kentucky 40601

Kentucky Lottery Corporation
Two Paragon Centre Suite 400
6040 Dutchmans Lane
Louisville, Kentucky 40205-3271

Kentucky State Fair Board
Kentucky Fair and Exposition Center
P.O. Box 37130
Louisville, Kentucky 40233-7130

Kentucky Educational Television
600 Cooper Drive
Lexington, Kentucky 40502

Kentucky Higher Education Assistance Authority
1050 U.S. 127 South, Suite 102
Frankfort, Kentucky 40601

Kentucky Educational Savings Plan Trust
1050 U.S. 127 South, Suite 102
Frankfort, Kentucky 40601

Kentucky Infrastructure Authority
Suite 261, Capitol Annex Building
Frankfort, Kentucky 40601

Kentucky Local Correctional Facilities Construction Authority
Suite 261, Capitol Annex Building
Frankfort, Kentucky 40601

Kentucky Judicial Form Retirement System
P.O. Box 791
Frankfort, Kentucky 40602

University of Kentucky
General Accounting
371 Peterson Service Building
Lexington, Kentucky 40506-0005

Eastern Kentucky University
Vice President for Business Affairs
521 Lancaster Avenue
Richmond, Kentucky 40475-3101

Morehead State University
Office of Accounting and Budgetary Control
202 Howell-McDowell Administration Building
Morehead, Kentucky 40351-1689

Northern Kentucky University
Office of Business Affairs
Lucas Administration Center 726
Nunn Drive
Highland Heights, Kentucky 41099-8101

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SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

Independent Auditor's Report on Supplementary
Schedules of Federal Financial Assistance

To the People of Kentucky
The Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet

We have audited the general-purpose financial statements of the Commonwealth of Kentucky as of and for the year ended June 30, 1996, and have issued our report thereon dated December 30, 1996. These general-purpose financial statements are the responsibility of the Commonwealth's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted government auditing standards, except that a portion of the university and college discretely presented component units was audited in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general-purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the general-purpose financial statements of the Commonwealth of Kentucky taken as a whole. The accompanying schedules of federal financial assistance are presented for purposes of additional analysis and are not a required part of the Commonwealth's general-purpose financial statements. The information in the schedules has been subjected to the auditing procedures applied in the audit of the Commonwealth's general-purpose financial statements.

144 CAPITOL ANNEX
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AN EQUAL OPPORTUNITY EMPLOYER M/F/D

2439 U.S. 127 SOUTH
FRANKFORT, KY 40601-8939
TELE. (502) 564-7494
FAX (502) 564-7741

To the People of Kentucky

The Honorable Paul E. Patton, Governor

John P. McCarty, Secretary

Finance and Administration Cabinet

We did not audit the schedules of federal financial assistance of the Kentucky Center for the Arts Corporation, Commonwealth Small Business Development Corporation, Kentucky Authority for Educational Television, Kentucky Educational Television Foundation, Kentucky Higher Education Assistance Authority, Kentucky Higher Education Student Loan Corporation, Kentucky Housing Corporation, and Kentucky Infrastructure Authority. These schedules, which collectively account for 5 percent of the total federal financial assistance expenditures, were audited by other auditors whose reports have been furnished to us, and our opinion presented herein, insofar as it relates to the above-mentioned agencies, is based solely on the reports of the other auditors. In addition, the accompanying schedules of federal financial assistance do not include the federal financial assistance programs related to the state universities, since the universities were excluded from the Statewide Single Audit of the Commonwealth of Kentucky under the provisions of the Single Audit Act of 1984 and Section 6c of Office of Management and Budget Circular A-128, Audits of State and Local Governments.

The general-purpose financial statements of the Commonwealth of Kentucky are prepared on an accrual/modified accrual basis of accounting. However, as described in Note 1, the schedules of federal financial assistance are prepared primarily on the basis of cash disbursements as modified by the application of KRS 45.229. Consequently, certain expenditures are recorded in the accounts only when cash is disbursed. Accordingly, the schedules of federal financial assistance are not intended to present the expenditures of federal financial assistance in conformity with generally accepted accounting principles.

In our opinion, based on our audit and the reports of other auditors, except for the effect of the application of a different basis of accounting as explained above, the schedules of federal financial assistance of the Commonwealth of Kentucky, excluding state universities as discussed in the fourth paragraph, are fairly presented in all material respects in relation to the Commonwealth's general-purpose financial statements taken as a whole.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

September 29, 1997

COMMONWEALTH OF KENTUCKY
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE - BY FEDERAL GRANTOR
CASH ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1996

<u>FEDERAL GRANTOR</u> CFDA # / PROGRAM TITLE	PASS-THROUGH GRANTOR'S #	STATE AGENCY	EXPENDITURES
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
DIRECT PROGRAMS:			
10.025 PLANT AND ANIMAL DISEASE, PEST CONTROL, AND ANIMAL CARE	NA	DEPARTMENT OF AGRICULTURE	\$ 47,275
10.063 AGRICULTURAL CONSERVATION PROGRAM	NA	NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET	3,868
10.064 FORESTRY INCENTIVES PROGRAM	NA	NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET	1,127
10.069 CONSERVATION RESERVE PROGRAM	NA	NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET	15,000
10.153 MARKET NEWS	NA	DEPARTMENT OF AGRICULTURE	5,822
10.162 INSPECTION GRADING AND STANDARDIZATION	NA	DEPARTMENT OF AGRICULTURE	4,859
10.164 WHOLESALE MARKET DEVELOPMENT	NA	DEPARTMENT OF AGRICULTURE	9,190
10.553 SCHOOL BREAKFAST PROGRAM (NOTE 2)	NA	DEPARTMENT OF EDUCATION	23,631,732
10.555 NATIONAL SCHOOL LUNCH PROGRAM (NOTE 2)	NA	DEPARTMENT OF EDUCATION	77,393,029
10.556 SPECIAL MILK PROGRAM FOR CHILDREN	NA	DEPARTMENT OF EDUCATION	113,685
10.557 SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS, AND CHILDREN (NOTE 2)	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	76,720,664
10.558 CHILD AND ADULT CARE FOOD PROGRAM (NOTE 2)	NA	DEPARTMENT OF EDUCATION	13,724,813
10.559 SUMMER FOOD SERVICES PROGRAM FOR CHILDREN	NA	DEPARTMENT OF EDUCATION	3,074,562
10.560 STATE ADMINISTRATIVE EXPENSES FOR CHILD NUTRITION	NA	DEPARTMENT OF AGRICULTURE	109,555
10.560 STATE ADMINISTRATIVE EXPENSES FOR CHILD NUTRITION	NA	DEPARTMENT OF EDUCATION	1,408,512
10.561 STATE ADMINISTRATIVE MATCHING GRANTS FOR FOOD STAMP PROGRAM (NOTE 2)	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	24,991,337
10.564 NUTRITION EDUCATION AND TRAINING PROGRAM	NA	DEPARTMENT OF EDUCATION	52,622
10.565 COMMODITY SUPPLEMENTAL FOOD PROGRAM (NOTE 5)	NA	DEPARTMENT OF AGRICULTURE	371,227
10.568 EMERGENCY FOOD ASSISTANCE PROGRAM (ADMINISTRATIVE COSTS)	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	371,239
10.570 NUTRITION PROGRAM FOR THE ELDERLY (COMMODITIES)	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	2,039,548
10.572 WIC FARMERS' MARKET NUTRITION PROGRAM	NA	DEPARTMENT OF AGRICULTURE	40,789
10.664 COOPERATIVE FORESTRY ASSISTANCE	NA	NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET	1,501,382
10.901 RESOURCE CONSERVATION AND DEVELOPMENT	NA	NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET	18,537
NA KENTUCKY RURAL REHABILITATION STUDENT LOAN PROGRAM (NOTE 3a)	NA	DEPARTMENT OF AGRICULTURE	117,465

SEE ACCOMPANYING NOTES TO SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE.

COMMONWEALTH OF KENTUCKY
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE - BY FEDERAL GRANTOR
CASH ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1996
(CONTINUED)

<u>FEDERAL GRANTOR</u> CFDA # / PROGRAM TITLE		PASS-THROUGH GRANTOR'S #	STATE AGENCY	EXPENDITURES
<u>U.S. DEPARTMENT OF AGRICULTURE (CONTINUED)</u> DIRECT PROGRAMS (CONTINUED):				
NA	KENTUCKY IA DEMONSTRATION	NA	DEPARTMENT OF EDUCATION	2,014,007
NA	DRUG COOPERATIVE AGREEMENT	NA	DEPARTMENT OF FISH AND WILDLIFE RESOURCES	12,499
NA	FORESTRY MARIJUANA SUPPRESSION	NA	DEPARTMENT OF STATE POLICE	23,616
PASSED THROUGH FROM CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12):				
10.557	SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS AND CHILDREN (NOTE 2)	NOTE 18	OFFICE OF THE ATTORNEY GENERAL	8,560
10.561	STATE ADMINISTRATIVE MATCHING GRANTS FOR FOOD STAMP PROGRAM (NOTE 2)	NOTE 18	OFFICE OF THE ATTORNEY GENERAL	206,755
10.561	STATE ADMINISTRATIVE MATCHING GRANTS FOR FOOD STAMP PROGRAM (NOTE 2)	NA	WORKFORCE DEVELOPMENT CABINET	1,861,689
PASSED THROUGH FROM DEPARTMENT OF EDUCATION:				
10.553	SCHOOL BREAKFAST PROGRAM (NOTE 2)	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	272,036
10.555	NATIONAL SCHOOL LUNCH PROGRAM (NOTE 2)	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	261,452
SUBTOTAL U.S. DEPARTMENT OF AGRICULTURE				<u>230,428,453</u>
<u>U.S. DEPARTMENT OF COMMERCE</u> DIRECT PROGRAMS:				
11.305	ECONOMIC DEVELOPMENT - STATE AND LOCAL ECONOMIC DEVELOPMENT PLANNING	NA	TOURISM DEVELOPMENT CABINET	68,410
11.305	ECONOMIC DEVELOPMENT - STATE AND LOCAL ECONOMIC DEVELOPMENT PLANNING	NA	DEPARTMENT FOR LOCAL GOVERNMENT	291,500
11.307	SPECIAL ECONOMIC DEVELOPMENT AND ADJUSTMENT ASSISTANCE PROGRAM - SUDDEN AND SEVERE ECONOMIC DISLOCATION AND LONG-TERM ECONOMIC DETERIORATION (NOTE 3e)	NA	DEPARTMENT FOR LOCAL GOVERNMENT	7,140

SEE ACCOMPANYING NOTES TO SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE.

COMMONWEALTH OF KENTUCKY
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE - BY FEDERAL GRANTOR
CASH ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1996
(CONTINUED)

FEDERAL GRANTOR CFDA # / PROGRAM TITLE	PASS-THROUGH GRANTOR'S #	STATE AGENCY	EXPENDITURES
<u>U.S. DEPARTMENT OF COMMERCE (CONTINUED)</u> DIRECT PROGRAMS (CONTINUED):			
11.450 INTEGRATED FLOOD OBSERVING AND WARNING SYSEM (INFLOWS)	NA	DEPARTMENT OF MILITARY AFFAIRS	47,927
11.550 PUBLIC TELECOMMUNICATIONS FACILITIES-PLANNING AND CONSTRUCTION	NA	KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION	585,515
11.611 MANUFACTURING EXTENSION PARTNERSHIP	NA	DEPARTMENT OF COMMUNITY DEVELOPMENT	277,572
NA ECONOMIC DEVELOPMENT ACT OF 1965 (NOTE 16)	NA	DEPARTMENT OF PARKS	
SUBTOTAL U.S. DEPARTMENT OF COMMERCE			1,278,064
<u>U.S. DEPARTMENT OF DEFENSE</u> DIRECT PROGRAMS:			
12.002 PROCUREMENT TECHNICAL ASSISTANCE FOR BUSINESS FIRMS	NA	DEPARTMENT OF COMMUNITY DEVELOPMENT	156,137
12.113 STATE MEMORANDUM OF AGREEMENT PROGRAM FOR THE REIMBURSEMENT OF TECHNICAL SERVICES	NA	NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET	229,802
NA TEACHER AND TEACHER'S AIDE PLACEMENT ASSISTANCE PROGRAM	NA	DEPARTMENT OF EDUCATION	35,289
SUBTOTAL U.S. DEPARTMENT OF DEFENSE			421,228
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u> DIRECT PROGRAMS:			
14.182 LOWER INCOME HOUSING ASSISTANCE PROGRAM - SECTION 8 NEW CONSTRUCTION/SUBSTANTIAL REHABILITATION (NOTE 2)	NA	KENTUCKY HOUSING CORPORATION	72,078,583
14.185 HOMEOWNERSHIP AND OPPORTUNITY FOR PEOPLE EVERYWHERE	NA	KENTUCKY HOUSING CORPORATION	62,405
14.227 COMMUNITY DEVELOPMENT BLOCK GRANTS/SPECIAL PURPOSE GRANTS/TECHNICAL ASSISTANCE PROGRAM (NOTE 16)	NA	DEPARTMENT FOR LOCAL GOVERNMENT	
14.228 COMMUNITY DEVELOPMENT BLOCK GRANTS/STATE'S PROGRAM (NOTE 2) (NOTE 11)	NA	DEPARTMENT FOR LOCAL GOVERNMENT	27,775,494
14.230 RENTAL HOUSING REHABILITATION (NOTE 10)	NA	DEPARTMENT FOR LOCAL GOVERNMENT	
14.231 EMERGENCY SHELTER GRANTS PROGRAM	NA	KENTUCKY HOUSING CORPORATION	1,050,031

SEE ACCOMPANYING NOTES TO SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE.

COMMONWEALTH OF KENTUCKY
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE - BY FEDERAL GRANTOR
CASH ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1996
(CONTINUED)

<u>FEDERAL GRANTOR</u> CFDA # / PROGRAM TITLE		PASS-THROUGH GRANTOR'S #	STATE AGENCY	EXPENDITURES
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (CONTINUED)</u>				
DIRECT PROGRAMS (CONTINUED):				
14.231	EMERGENCY SHELTER GRANTS PROGRAM (NOTE 16)	NA	DEPARTMENT FOR LOCAL GOVERNMENT	
14.235	SUPPORTIVE HOUSING PROGRAM	NA	KENTUCKY HOUSING CORPORATION	742,934
14.238	SHELTER PLUS CARE	NA	KENTUCKY HOUSING CORPORATION	51,489
14.239	HOME INVESTMENT PARTNERSHIPS PROGRAM	NA	KENTUCKY HOUSING CORPORATION	8,782,135
14.401	FAIR HOUSING ASSISTANCE PROGRAM-STATE AND LOCAL	NA	KENTUCKY COMMISSION ON HUMAN RIGHTS	17,089
14.408	FAIR HOUSING INITIATIVES PROGRAM (FHIP) ADMINISTRATIVE ENFORCEMENT INITIATIVE (NOTE 17)	NA	KENTUCKY COMMISSION ON HUMAN RIGHTS	61,626
14.855	SECTION 8 RENTAL VOUCHER PROGRAM	NA	KENTUCKY HOUSING CORPORATION	3,319,997
14.856	LOWER INCOME HOUSING ASSISTANCE PROGRAM - SECTION 8 MODERATE REHABILITATION	NA	KENTUCKY HOUSING CORPORATION	1,802,502
14.857	SECTION 8 RENTAL CERTIFICATE PROGRAM	NA	KENTUCKY HOUSING CORPORATION	5,392,089
NA	MANUFACTURED CONSTRUCTION HOME PROGRAM (NOTE 14)	NA	DEPARTMENT OF HOUSING, BUILDINGS AND CONSTRUCTION	
PASSED THROUGH FROM DEPARTMENT FOR LOCAL GOVERNMENT:				
14.228	COMMUNITY DEVELOPMENT BLOCK GRANTS/STATE'S PROGRAM (NOTE 2) (NOTE 16)	NA	KENTUCKY COMMISSION ON HUMAN RIGHTS	
SUBTOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				<u>121,136,374</u>
<u>U.S. DEPARTMENT OF THE INTERIOR</u>				
DIRECT PROGRAMS:				
15.250	REGULATION OF SURFACE COAL MINING AND SURFACE EFFECTS OF UNDERGROUND COAL MINING (NOTE 2)	NA	NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET	13,134,507
15.252	ABANDONED MINE LAND RECLAMATION (AMLR) PROGRAM (NOTE 2)	NA	NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET	10,632,717
15.605	SPORT FISH RESTORATION	NA	DEPARTMENT OF FISH AND WILDLIFE RESOURCES	3,011,306
15.611	WILDLIFE RESTORATION	NA	DEPARTMENT OF FISH AND WILDLIFE RESOURCES	3,676,138
15.612	ENDANGERED SPECIES CONSERVATION	NA	DEPARTMENT OF FISH AND WILDLIFE RESOURCES	143,602

SEE ACCOMPANYING NOTES TO SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE.

COMMONWEALTH OF KENTUCKY
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FEDERAL GRANTOR CFDA # / PROGRAM TITLE	PASS-THROUGH GRANTOR'S #	STATE AGENCY	EXPENDITURES
<u>U.S. DEPARTMENT OF THE INTERIOR (CONTINUED)</u> DIRECT PROGRAMS (CONTINUED):			
15.615 COOPERATIVE ENDANGERED SPECIES CONSERVATION FUND 15.616 CLEAN VESSEL ACT 15.904 HISTORIC PRESERVATION FUND GRANTS-IN-AID 15.916 OUTDOOR RECREATION - ACQUISITION, DEVELOPMENT, AND PLANNING (NOTE 8) NA FISH AND WILDLIFE COORDINATION ACT (NOTE 16) NA NORTH AMERICAN WETLANDS CONSERVATION ACT NA NATIONAL BIOLOGICAL SERVICE	NA NA NA NA NA NA	NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET DEPARTMENT OF FISH AND WILDLIFE RESOURCES KENTUCKY HERITAGE COUNCIL DEPARTMENT FOR LOCAL GOVERNMENT DEPARTMENT OF FISH AND WILDLIFE RESOURCES DEPARTMENT OF FISH AND WILDLIFE RESOURCES NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET	30,710 62,520 765,639 457,467 18,644 34,949
PASSED THROUGH FROM DEPARTMENT OF FISH AND WILDLIFE RESOURCES:			
15.616 CLEAN VESSEL ACT	NA	NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET	380
SUBTOTAL U.S. DEPARTMENT OF THE INTERIOR			31,968,579
<u>U.S. DEPARTMENT OF JUSTICE</u> DIRECT PROGRAMS:			
16.540 JUVENILE JUSTICE AND DELINQUENCY PREVENTION - ALLOCATION TO STATES 16.550 CRIMINAL JUSTICE STATISTICS DEVELOPMENT (NOTE 16) 16.574 CRIMINAL JUSTICE DISCRETIONARY GRANT PROGRAM 16.575 CRIME VICTIM ASSISTANCE 16.576 CRIME VICTIM COMPENSATION 16.579 DRUG CONTROL AND SYSTEM IMPROVEMENT - FORMULA GRANT 16.579 DRUG CONTROL AND SYSTEM IMPROVEMENT - FORMULA GRANT	NA NA NA NA NA NA NA	JUSTICE CABINET - DIVISION OF GRANTS MANAGEMENT OFFICE OF THE ATTORNEY GENERAL DEPARTMENT OF CORRECTIONS JUSTICE CABINET - DIVISION OF GRANTS MANAGEMENT CRIME VICTIMS COMPENSATION BOARD JUSTICE CABINET - DIVISION OF GRANTS MANAGEMENT CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	447,116 241,879 794,026 289,153 2,896,494 1,740

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<u>FEDERAL GRANTOR</u> CFDA # / PROGRAM TITLE		PASS-THROUGH GRANTOR'S #	STATE AGENCY	EXPENDITURES
<u>U.S. DEPARTMENT OF JUSTICE (CONTINUED)</u> DIRECT PROGRAMS (CONTINUED):				
16.588	VIOLENCE AGAINST WOMEN FORMULA GRANT	NA	JUSTICE CABINET - DIVISION OF GRANTS MANAGEMENT	58,888
16.710	PUBLIC SAFETY PARTNERSHIP AND COMMUNITY POLICING GRANTS	NA	JUSTICE CABINET - DIVISION OF GRANTS MANAGEMENT	6,321
NA	CRIMINAL JUSTICE DISCRETIONARY GRANT PROGRAM	NA	DEPARTMENT OF STATE POLICE	581,097
PASSED THROUGH FROM JUSTICE CABINET - DIVISION OF GRANTS MANAGEMENT:				
16.575	CRIME VICTIM ASSISTANCE	NOTE 18	UNIFIED PROSECUTORIAL SYSTEM	246,496
16.579	DRUG CONTROL AND SYSTEM IMPROVEMENT-FORMULA GRANT	5072-N15B-4/93	ADMINISTRATIVE OFFICE OF THE COURTS	31,718
16.579	DRUG CONTROL AND SYSTEM IMPROVEMENT-FORMULA GRANT	5170-N26-1/95	OFFICE OF THE ATTORNEY GENERAL	50,229
16.579	DRUG CONTROL AND SYSTEM IMPROVEMENT-FORMULA GRANT	95-DB-CX-0021	DEPARTMENT FOR LOCAL GOVERNMENT	204,000
16.579	DRUG CONTROL AND SYSTEM IMPROVEMENT-FORMULA GRANT	(NOTE 18)	DEPARTMENT OF CORRECTIONS	1,078,071
16.579	DRUG CONTROL AND SYSTEM IMPROVEMENT-FORMULA GRANT	NA	DEPARTMENT OF PUBLIC ADVOCACY	6,088
16.579	DRUG CONTROL AND SYSTEM IMPROVEMENT-FORMULA GRANT	NA	DEPARTMENT OF STATE POLICE	1,667,176
16.588	VIOLENCE AGAINST WOMEN FORMULA GRANTS	5326-VA4-1/95	ADMINISTRATIVE OFFICE OF THE COURTS	31,952
16.710	PUBLIC SAFETY PARTNERSHIP AND COMMUNITY POLICING GRANTS	96-CN-WX-K001- AOC	ADMINISTRATIVE OFFICE OF THE COURTS	1,544
SUBTOTAL U.S. DEPARTMENT OF JUSTICE				8,633,988
<u>U.S. DEPARTMENT OF LABOR</u> DIRECT PROGRAMS:				
17.002	LABOR FORCE STATISTICS	NA	WORKFORCE DEVELOPMENT CABINET	756,131
17.005	COMPENSATION AND WORKING CONDITIONS DATA	NA	LABOR CABINET	118,370
17.207	EMPLOYMENT SERVICES (NOTE 2)	NA	WORKFORCE DEVELOPMENT CABINET	10,540,942
17.225	UNEMPLOYMENT INSURANCE (NOTE 2) (NOTE 7)	NA	WORKFORCE DEVELOPMENT CABINET	22,196,551
17.235	SENIOR COMMUNITY SERVICE EMPLOYMENT PROGRAM	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	1,606,087
17.245	TRADE ADJUSTMENT ASSISTANCE - WORKERS	NA	WORKFORCE DEVELOPMENT CABINET	4,426,259
17.246	EMPLOYMENT AND TRAINING ASSISTANCE-DISLOCATED WORKERS	NA	WORKFORCE DEVELOPMENT CABINET	7,791,701

SEE ACCOMPANYING NOTES TO SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE.

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(CONTINUED)

FEDERAL GRANTOR CFDA # / PROGRAM TITLE	PASS-THROUGH GRANTOR'S #	STATE AGENCY	EXPENDITURES
<u>U.S. DEPARTMENT OF LABOR (CONTINUED)</u> DIRECT PROGRAMS (CONTINUED):			
17.250 JOB TRAINING PARTNERSHIP ACT (NOTE 2)	NA	WORKFORCE DEVELOPMENT CABINET	31,520,497
17.500 OCCUPATIONAL SAFETY AND HEALTH	NA	LABOR CABINET	2,579,419
17.504 OCCUPATIONAL SAFETY AND HEALTH DATA COLLECTIONS (NOTE 15)	NA	LABOR CABINET	11,363
17.600 MINE HEALTH AND SAFETY GRANTS	NA	DEPARTMENT OF MINES AND MINERALS	570,479
17.801 DISABLED VETERANS' OUTREACH PROGRAM	NA	WORKFORCE DEVELOPMENT CABINET	712,786
17.804 LOCAL VETERANS' EMPLOYMENT REPRESENTATIVE PROGRAM	NA	WORKFORCE DEVELOPMENT CABINET	854,686
SUBTOTAL U.S. DEPARTMENT OF LABOR			83,685,271
<u>U.S. DEPARTMENT OF TRANSPORTATION</u> DIRECT PROGRAMS:			
20.005 BOATING SAFETY FINANCIAL ASSISTANCE	NA	DEPARTMENT OF FISH AND WILDLIFE RESOURCES	424,895
20.106 AIRPORT IMPROVEMENT PROGRAM	NA	TRANSPORTATION CABINET	156,119
20.205 HIGHWAY PLANNING AND CONSTRUCTION (NOTE 2) (NOTE 6)	NA	TRANSPORTATION CABINET	257,845,169
20.205 HIGHWAY PLANNING AND CONSTRUCTION (NOTE 2)	NA	DEPARTMENT FOR LOCAL GOVERNMENT	28,145
20.205 HIGHWAY PLANNING AND CONSTRUCTION (NOTE 2)	NA	KENTUCKY HISTORICAL SOCIETY	13,384
20.218 MOTOR CARRIER SAFETY ASSISTANCE PROGRAM	NA	TRANSPORTATION CABINET	1,890,931
20.308 LOCAL RAIL FREIGHT ASSISTANCE	NA	TRANSPORTATION CABINET	121,889
20.505 FEDERAL TRANSIT TECHNICAL STUDIES GRANTS	NA	TRANSPORTATION CABINET	345,079
20.509 PUBLIC TRANSPORTATION FOR NONURBANIZED AREAS	NA	TRANSPORTATION CABINET	3,742,655
20.513 CAPITAL ASSISTANCE PROGRAM FOR ELDERLY PERSONS AND PERSONS WITH DISABILITIES	NA	TRANSPORTATION CABINET	923,258
20.600 STATE AND COMMUNITY HIGHWAY SAFETY	NA	DEPARTMENT OF STATE POLICE	2,406,849
20.600 STATE AND COMMUNITY HIGHWAY SAFETY (NOTE 16)	NA	UNIFIED PROSECUTORIAL SYSTEM	
20.700 PIPELINE SAFETY	NA	PUBLIC SERVICE COMMISSION	233,482
20.703 INTERAGENCY HAZARDOUS MATERIALS PUBIC SECTOR TRAINING AND PLANNING GRANTS	NA	DEPARTMENT OF MILITARY AFFAIRS	120,280
NA JOINT FEDERAL/STATE MOTOR FUEL TAX COMPLIANCE PROJECT	NA	REVENUE CABINET	50,000

SEE ACCOMPANYING NOTES TO SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE.

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FEDERAL GRANTOR CFDA # / PROGRAM TITLE	PASS-THROUGH GRANTOR'S #	STATE AGENCY	EXPENDITURES
<u>U.S. DEPARTMENT OF TRANSPORTATION (CONTINUED)</u>			
PASSED THROUGH FROM DEPARTMENT OF STATE POLICE:			
20.600 STATE AND COMMUNITY HIGHWAY SAFETY	NOTE 18	TRANSPORTATION CABINET	39,398
20.600 STATE AND COMMUNITY HIGHWAY SAFETY	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	123,470
SUBTOTAL U.S. DEPARTMENT OF TRANSPORTATION			268,465,003
<u>U.S. APPALACHIAN REGIONAL COMMISSION</u>			
DIRECT PROGRAMS:			
23.001 APPALACHIAN REGIONAL DEVELOPMENT	NA	DEPARTMENT OF COMMUNITY DEVELOPMENT	110,857
23.001 APPALACHIAN REGIONAL DEVELOPMENT (NOTE 3b)	NA	DEPARTMENT FOR LOCAL GOVERNMENT	175,000
23.002 APPALACHIAN SUPPLEMENTS TO FEDERAL GRANT-IN-AID (AREA DEVELOPMENT)	NA	DEPARTMENT FOR LOCAL GOVERNMENT	789,696
23.005 APPALACHIAN HOUSING PROJECT PLANNING LOAN, TECHNICAL ASSISTANCE GRANT AND SITE DEVELOPMENT AND OFF-SITE IMPROVEMENT GRANT: STATE APPALACHIAN HOUSING PROGRAM (NOTE 16)	NA	DEPARTMENT FOR LOCAL GOVERNMENT	
23.011 APPALACHIAN STATE RESEARCH, TECHNICAL ASSISTANCE, AND DEMONSTRATION PROJECT	NA	KENTUCKY ARTS COUNCIL	25,300
23.011 APPALACHIAN STATE RESEARCH, TECHNICAL ASSISTANCE, AND DEMONSTRATION PROJECT	NA	KENTUCKY HERITAGE COUNCIL	17,389
23.011 APPALACHIAN STATE RESEARCH, TECHNICAL ASSISTANCE, AND DEMONSTRATION PROJECT	NA	DEPARTMENT FOR LOCAL GOVERNMENT	83,745
23.012 APPALACHIAN VOCATIONAL AND OTHER EDUCATION FACILITIES AND OPERATIONS	NA	WORKFORCE DEVELOPMENT CABINET	212,815
NA REGIONAL TOURISM INITIATIVE	NA	DEPARTMENT OF TRAVEL DEVELOPMENT	22,267

SEE ACCOMPANYING NOTES TO SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE.

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SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE - BY FEDERAL GRANTOR
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FEDERAL GRANTOR	PASS-THROUGH	STATE AGENCY	EXPENDITURES
CFDA # / PROGRAM TITLE	GRANTOR'S #		
<u>U.S. APPALACHIAN REGIONAL COMMISSION (CONTINUED)</u>			
PASSED THROUGH FROM DEPARTMENT FOR LOCAL GOVERNMENT:			
23.001 APPALACHIAN REGIONAL DEVELOPMENT (NOTE 16) 23.005 APPALACHIAN HOUSING PROJECT PLANNING LOAN, TECHNICAL ASSISTANCE GRANT AND SITE DEVELOPMENT AND OFF-SITE IMPROVEMENT GRANT: STATE APPALACHIAN HOUSING PROGRAMS (NOTE 3d)	NA 78-140	DEPARTMENT OF EDUCATION KENTUCKY HOUSING CORPORATION	693,840
PASSED THROUGH FROM GOVERNOR'S COMMISSION ON LITERACY:			
23.001 APPALACHIAN REGIONAL DEVELOPMENT (NOTE 16)	NA	WORKFORCE DEVELOPMENT CABINET	
SUBTOTAL U.S. APPALACHIAN REGIONAL COMMISSION			2,130,909
<u>U.S. EQUAL EMPLOYMENT OPPORTUNITY COMMISSION</u>			
DIRECT PROGRAM:			
30.002 EMPLOYMENT DISCRIMINATION-STATE AND LOCAL FAIR EMPLOYMENT PRACTICES AGENCY CONTRACTS (NOTE 17)	NA	KENTUCKY COMMISSION ON HUMAN RIGHTS	6,493
SUBTOTAL U.S. EQUAL EMPLOYMENT OPPORTUNITY COMMISSION			6,493
<u>U.S. NATIONAL FOUNDATION ON THE ARTS AND THE HUMANITIES</u>			
DIRECT PROGRAMS:			
45.024 PROMOTION OF THE ARTS-GRANTS TO ORGANIZATIONS AND INDIVIDUALS (NOTE 15)	NA	KENTUCKY ARTS COUNCIL	138,500
45.024 PROMOTION OF THE ARTS-GRANTS TO ORGANIZATIONS AND INDIVIDUALS (NOTE 15)	NA	KENTUCKY HISTORICAL SOCIETY	3,193
45.025 PROMOTION OF THE ARTS-PARTNERSHIP AGREEMENTS (NOTE 15)	NA	KENTUCKY ARTS COUNCIL	455,300
45.104 PROMOTION OF THE HUMANITIES-HUMANITIES PROJECTS IN MEDIA	NA	KENTUCKY EDUCATIONAL TELEVISION FOUNDATION	27,253
45.129 PROMOTION OF THE HUMANITIES-FEDERAL-STATE PARTNERSHIP	NA	KENTUCKY HISTORICAL SOCIETY	4,356

SEE ACCOMPANYING NOTES TO SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE.

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FEDERAL GRANTOR CFDA # / PROGRAM TITLE	PASS-THROUGH GRANTOR'S #	STATE AGENCY	EXPENDITURES
<u>U.S. NATIONAL FOUNDATION ON THE ARTS AND THE HUMANITIES (CONTINUED)</u> DIRECT PROGRAMS (CONTINUED):			
45.301 INSTITUTE OF MUSEUM SERVICES	NA	KENTUCKY HISTORICAL SOCIETY	14,923
45.301 INSTITUTE OF MUSEUM SERVICES	NA	DEPARTMENT OF PARKS	33,335
PASSED THROUGH FROM SOUTHERN ARTS FEDERATION:			
45.002 PROMOTION OF THE ARTS - DANCE	029/96	KENTUCKY CENTER FOR THE ARTS CORPORATION	2,100
45.008 PROMOTION OF THE ARTS - THEATER	098/96	KENTUCKY CENTER FOR THE ARTS CORPORATION	5,000
45.011 PROMOTION OF THE ARTS - PRESENTING (NOTE 16)	039/95F, 038/95F,037/95F	KENTUCKY CENTER FOR THE ARTS CORPORATION	
PASSED THROUGH FROM KENTUCKY ARTS COUNCIL:			
45.003 PROMOTION OF THE ARTS - ARTS IN EDUCATION	96-9005	KENTUCKY CENTER FOR THE ARTS CORPORATION	22,894
45.007 PROMOTION OF THE ARTS - STATE AND REGIONAL PROGRAM	96-4115	KENTUCKY CENTER FOR THE ARTS CORPORATION	3,000
45.024 PROMOTION OF THE ARTS - GRANTS TO ORGANIZATIONS AND INDIVIDUALS (NOTE 15)	2621,2539	KENTUCKY HISTORICAL SOCIETY	7,850
PASSED THROUGH FROM KENTUCKY HUMANITIES COUNCIL:			
45.129 PROMOTION OF THE HUMANITIES - FEDERAL-STATE PARTNERSHIP	95-81	KENTUCKY CENTER FOR THE ARTS CORPORATION	1,000
45.129 PROMOTION OF THE HUMANITIES - FEDERAL-STATE PARTNERSHIP	NA	KENTUCKY EDUCATIONAL TELEVISION FOUNDATION	2,238
SUBTOTAL U.S. NATIONAL FOUNDATION ON THE ARTS AND THE HUMANITIES			720,942
<u>U.S. NATIONAL SCIENCE FOUNDATION</u> DIRECT PROGRAMS:			
47.076 EDUCATION AND HUMAN RESOURCES	NA	DEPARTMENT OF EDUCATION	1,997,445
NA PLANNING FOR A UBIQUITOUS EDUCATIONAL NETWORK WITH ENHANCED COGNITIVE INTERACTION	NA	KENTUCKY EDUCATIONAL TELEVISION FOUNDATION	33,465
SUBTOTAL U.S. NATIONAL SCIENCE FOUNDATION			2,030,910
SEE ACCOMPANYING NOTES TO SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE.			

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FEDERAL GRANTOR CFDA # / PROGRAM TITLE	PASS-THROUGH GRANTOR'S #	STATE AGENCY	EXPENDITURES
<u>U.S. SMALL BUSINESS ADMINISTRATION</u> DIRECT PROGRAM:			
59.045 NATURAL RESOURCE DEVELOPMENT	NA	NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET	67,619
SUBTOTAL U.S. SMALL BUSINESS ADMINISTRATION			67,619
<u>U.S. TENNESSEE VALLEY AUTHORITY</u> DIRECT PROGRAM:			
62.001 TVA ENVIRONMENTAL RESEARCH CENTER	NA	NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET	22,058
SUBTOTAL U.S. TENNESSEE VALLEY AUTHORITY			22,058
<u>U.S. DEPARTMENT OF VETERANS AFFAIRS</u> DIRECT PROGRAM:			
NA VETERANS ADMINISTRATION - STATE APPROVING AGENCY	NA	WORKFORCE DEVELOPMENT CABINET	162,059
SUBTOTAL U.S. DEPARTMENT OF VETERANS AFFAIRS			162,059
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u> DIRECT PROGRAMS:			
66.001 AIR POLLUTION CONTROL PROGRAM SUPPORT	NA	NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET	1,430,482
66.032 STATE INDOOR RADON GRANTS	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	267,677
66.419 WATER POLLUTION CONTROL - STATE AND INTERSTATE PROGRAM SUPPORT	NA	NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET	1,364,394

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<u>U.S. ENVIRONMENTAL PROTECTION AGENCY (CONTINUED)</u> DIRECT PROGRAMS (CONTINUED):			
66.432 STATE PUBLIC WATER SYSTEM SUPERVISION	NA	NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET	812,567
66.435 WATER POLLUTION CONTROL - LAKE RESTORATION COOPERATIVE AGREEMENTS	NA	NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET	15,776
66.438 CONSTRUCTION MANAGEMENT ASSISTANCE	NA	NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET	414,941
66.454 WATER QUALITY MANAGEMENT PLANNING	NA	NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET	213,478
66.458 CAPITALIZATION GRANTS FOR STATE REVOLVING FUNDS (NOTE 2) (NOTE NOTE 3g)	NA	KENTUCKY INFRASTRUCTURE AUTHORITY	33,734,563
66.460 NONPOINT SOURCE IMPLEMENTATION GRANTS	NA	NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET	889,993
66.461 WETLANDS PROTECTION - STATE AND TRIBAL DEVELOPMENT GRANTS	NA	NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET	29,354
66.463 NATIONAL POLLUTANT DISCHARGE ELIMINATION SYSTEM RELATED STATE PROGRAM GRANTS	NA	NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET	162,280
66.700 CONSOLIDATED PESTICIDE COMPLIANCE MONITORING AND PROGRAM COOPERATIVE AGREEMENTS	NA	DEPARTMENT OF AGRICULTURE	558,270
66.701 TOXIC SUBSTANCES COMPLIANCE MONITORING COOPERATIVE AGREEMENTS	NA	NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET	174,964
66.707 TSCA TITLE IV STATE LEAD GRANTS - CERTIFICATION OF LEAD-BASED PAINT PROFESSIONALS	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	58,518
66.708 POLLUTION PREVENTION GRANTS PROGRAM	NA	NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET	118,534
66.801 HAZARDOUS WASTE MANAGEMENT STATE PROGRAM SUPPORT	NA	NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET	1,457,266
66.802 SUPERFUND STATE SITE - SPECIFIC COOPERATIVE AGREEMENTS	NA	NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET	242,161
66.804 STATE UNDERGROUND STORAGE TANKS PROGRAM	NA	NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET	186,675
66.805 LEAKING UNDERGROUND STORAGE TANK TRUST FUND PROGRAM	NA	NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET	1,092,382

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<u>U.S. ENVIRONMENTAL PROTECTION AGENCY (CONTINUED)</u> DIRECT PROGRAMS (CONTINUED):				
66.809	SUPERFUND STATE CORE PROGRAM COOPERATIVE AGREEMENTS	NA	NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET	200,930
66.951	ENVIRONMENTAL EDUCATION GRANTS	NA	DEPARTMENT OF EDUCATION	204
NA	SURVEYS, STUDIES, INVESTIGATIONS	NA	NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET	130,017
NA	WATER POLLUTION CONTROL - STATE AND LOCAL MANPOWER PROGRAM DEVELOPMENT	NA	NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET	44,697
PASSED THROUGH FROM KENTUCKY INFRASTRUCTURE AUTHORITY:				
66.458	CAPITALIZATION GRANTS FOR STATE REVOLVING FUNDS (NOTE 2)	NA	NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET	746,162
SUBTOTAL U.S. ENVIRONMENTAL PROTECTION AGENCY				<u>44,346,285</u>
<u>U.S. DEPARTMENT OF ENERGY</u> DIRECT PROGRAMS:				
81.039	NATIONAL ENERGY INFORMATION CENTER	NA	NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET	5,239
81.041	STATE ENERGY CONSERVATION	NA	NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET	557,950
81.042	WEATHERIZATION ASSISTANCE FOR LOW-INCOME PERSONS	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	4,413,120
81.050	ENERGY EXTENSION SERVICE	NA	NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET	60,909
81.089	FOSSIL ENERGY RESEARCH AND DEVELOPMENT	NA	DEPARTMENT OF MINES AND MINERALS	582,096
81.052	ENERGY CONSERVATION FOR INSTITUTIONAL BUILDINGS	NA	NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET	75,202
81.092	ENVIRONMENTAL RESTORATION	NA	NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET	21,541

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<u>U.S. DEPARTMENT OF ENERGY (CONTINUED)</u>				
DIRECT PROGRAMS (CONTINUED):				
81.502	PADUCAH GASEOUS DIFFUSION PLANT ENVIRONMENTAL MONITORING AND OVERSIGHT (NOTE 15)	NA	NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET	1,387,978
NA	CRUDE OIL OVERCHARGE (NOTE 19)	NA	DEPARTMENT OF EDUCATION	101,714
NA	WEATHERIZATION - OIL OVERCHARGE FUND	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	2,419,230
PASSED THROUGH FROM NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET:				
81.041	STATE ENERGY CONSERVATION	NA	DEPARTMENT OF HOUSING, BUILDINGS AND CONSTRUCTION	3,480
81.041	STATE ENERGY CONSERVATION	MA16015	TRANSPORTATION CABINET	2,800
81.502	PADUCAH GASEOUS DIFFUSION PLANT ENVIRONMENTAL MONITORING AND OVERSIGHT (NOTE 15)	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	221,159
SUBTOTAL U.S. DEPARTMENT OF ENERGY				<u>9,852,418</u>
<u>U.S. FEDERAL EMERGENCY MANAGEMENT AGENCY</u>				
DIRECT PROGRAMS:				
83.011	HAZARDOUS MATERIALS TRAINING PROGRAM FOR IMPLEMENTATION OF THE SUPERFUND AMENDMENT AND REAUTHORIZATION ACT (SARA) OF 1986	NA	DEPARTMENT OF MILITARY AFFAIRS	61,948
83.100	FLOOD INSURANCE	NA	NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET	14,567
83.105	COMMUNITY ASSISTANCE PROGRAM-STATE SUPPORT SERVICES ELEMENT (NOTE 16)	NA	DEPARTMENT OF MILITARY AFFAIRS	
83.105	COMMUNITY ASSISTANCE PROGRAM - STATE SUPPORT SERVICES ELEMENT	NA	NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET	56,975
83.505	STATE DISASTER PREPAREDNESS GRANTS	NA	DEPARTMENT OF MILITARY AFFAIRS	50,749
83.516	DISASTER ASSISTANCE (NOTE 2) (NOTE 16)	NA	WORKFORCE DEVELOPMENT CABINET	
83.516	DISASTER ASSISTANCE (NOTE 2)	NA	DEPARTMENT OF MILITARY AFFAIRS	9,454,451
83.521	EARTHQUAKE HAZARDS REDUCTION GRANTS	NA	DEPARTMENT OF MILITARY AFFAIRS	89,071
83.534	EMERGENCY MANAGEMENT - STATE AND LOCAL ASSISTANCE	NA	DEPARTMENT OF MILITARY AFFAIRS	1,674,475

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<u>U.S. FEDERAL EMERGENCY MANAGEMENT AGENCY (CONTINUED)</u> DIRECT PROGRAMS (CONTINUED):				
NA	CHEMICAL STOCKPILE EMERGENCY PREPAREDNESS PROGRAM	NA	DEPARTMENT OF MILITARY AFFAIRS	6,611,118
PASSED THROUGH FROM DEPARTMENT OF MILITARY AFFAIRS:				
83.516	DISASTER ASSISTANCE (NOTE 2)	F1018-DR	DEPARTMENT OF PARKS	70,332
83.516	DISASTER ASSISTANCE (NOTE 2)	NOTE 18	TRANSPORTATION CABINET	1,185,000
NA	CHEMICAL STOCKPILE EMERGENCY PREPAREDNESS PROGRAM	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	61,855
SUBTOTAL U.S. FEDERAL EMERGENCY MANAGEMENT AGENCY				19,330,541
<u>U.S. DEPARTMENT OF EDUCATION</u> DIRECT PROGRAMS:				
84.002	ADULT EDUCATION - STATE GRANT PROGRAM	NA	WORKFORCE DEVELOPMENT CABINET	5,637,588
84.004	DESEGREGATION ASSISTANCE, CIVIL RIGHTS TRAINING, AND ADVISORY SERVICES	NA	DEPARTMENT OF EDUCATION	204,296
84.007	FEDERAL SUPPLEMENTAL EDUCATIONAL OPPORTUNITY GRANTS	NA	WORKFORCE DEVELOPMENT CABINET	174,413
84.009	EDUCATION OF CHILDREN WITH DISABILITIES IN STATE OPERATED OR SUPPORTED SCHOOLS	NA	DEPARTMENT OF EDUCATION	27,044
84.010	TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES (NOTE 2)	NA	DEPARTMENT OF EDUCATION	120,012,180
84.011	MIGRANT EDUCATION - BASIC STATE GRANT PROGRAM	NA	DEPARTMENT OF EDUCATION	6,103,324
84.012	EDUCATIONALLY DEPRIVED CHILDREN - STATE ADMINISTRATION	NA	DEPARTMENT OF EDUCATION	332,229
84.013	TITLE I PROGRAM FOR NEGLECTED AND DELINQUENT CHILDREN	NA	DEPARTMENT OF EDUCATION	1,547
84.025	SERVICES FOR CHILDREN WITH DEAF-BLINDNESS	NA	DEPARTMENT OF EDUCATION	103,592
84.027	SPECIAL EDUCATION - GRANTS TO STATES (NOTE 2)	NA	DEPARTMENT OF EDUCATION	34,126,261
84.029	SPECIAL EDUCATION - PERSONNEL DEVELOPMENT AND PARENT TRAINING	NA	DEPARTMENT OF EDUCATION	99,887
84.032	FEDERAL FAMILY EDUCATION LOANS (NOTE 2) (NOTE 3f)	NA	KENTUCKY HIGHER EDUCATION ASSISTANCE AUTHORITY	39,217,542
84.032	FEDERAL FAMILY EDUCATION LOANS (NOTE 2)	NA	KENTUCKY HIGHER EDUCATION STUDENT LOAN CORPORATION	NOTE 3f
84.033	FEDERAL WORK-STUDY PROGRAM	NA	WORKFORCE DEVELOPMENT CABINET	194,000

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U.S. DEPARTMENT OF EDUCATION (CONTINUED) DIRECT PROGRAMS (CONTINUED):			
84.034 PUBLIC LIBRARY SERVICE	NA	DEPARTMENT FOR LIBRARIES AND ARCHIVES	1,346,261
84.035 INTERLIBRARY COOPERATION AND RESOURCE SHARING	NA	DEPARTMENT FOR LIBRARIES AND ARCHIVES	352,415
84.048 VOCATIONAL EDUCATION - BASIC GRANTS TO STATES (NOTE 2)	NA	WORKFORCE DEVELOPMENT CABINET	11,860,223
84.049 VOCATIONAL EDUCATION - CONSUMER AND HOMEMAKING EDUCATION	NA	WORKFORCE DEVELOPMENT CABINET	81,131
84.053 VOCATIONAL EDUCATION - STATE COUNCILS	NA	WORKFORCE DEVELOPMENT CABINET	139,018
84.063 FEDERAL PELL GRANT PROGRAM	NA	WORKFORCE DEVELOPMENT CABINET	5,198,672
84.069 STATE STUDENT INCENTIVES GRANTS	NA	KENTUCKY HIGHER EDUCATION ASSISTANCE AUTHORITY	776,067
84.073 NATIONAL DIFFUSION NETWORK	NA	DEPARTMENT OF EDUCATION	87,633
84.086 SPECIAL EDUCATION - PROGRAM FOR SEVERELY DISABLED CHILDREN	NA	DEPARTMENT OF EDUCATION	270,185
84.126 REHABILITATION SERVICES - VOCATIONAL REHABILITATION GRANTS TO STATES (NOTE 2)	NA	WORKFORCE DEVELOPMENT CABINET	41,509,277
84.128 REHABILITATION SERVICES - SERVICE PROJECTS (NOTE 16)	NA	WORKFORCE DEVELOPMENT CABINET	
84.151 CHAPTER 2 STATE BLOCK GRANTS	NA	DEPARTMENT OF EDUCATION	1,307,827
84.154 PUBLIC LIBRARY CONSTRUCTION AND TECHNOLOGY ENHANCEMENT	NA	DEPARTMENT FOR LIBRARIES AND ARCHIVES	552,382
84.158 SECONDARY EDUCATION AND TRANSITIONAL SERVICES FOR YOUTH WITH DISABILITIES	NA	DEPARTMENT OF EDUCATION	458,360
84.161 REHABILITATION SERVICES - CLIENT ASSISTANCE PROGRAM	NA	WORKFORCE DEVELOPMENT CABINET	124,475
84.164 EISENHOWER MATHEMATICS AND SCIENCE EDUCATION - STATE GRANTS	NA	COUNCIL ON HIGHER EDUCATION	531,997
84.164 EISENHOWER MATHEMATICS AND SCIENCE EDUCATION - STATE GRANTS	NA	DEPARTMENT OF EDUCATION	1,661,873
84.169 INDEPENDENT LIVING - STATE GRANTS	NA	WORKFORCE DEVELOPMENT CABINET	357,385
84.173 SPECIAL EDUCATION - PRESCHOOL GRANTS	NA	DEPARTMENT OF EDUCATION	9,722,087
84.174 VOCATIONAL EDUCATION - COMMUNITY BASED ORGANIZATIONS	NA	WORKFORCE DEVELOPMENT CABINET	48,587
84.176 DOUGLAS TEACHER SCHOLARSHIPS (NOTE 16)	NA	KENTUCKY HIGHER EDUCATION ASSISTANCE AUTHORITY	
84.177 REHABILITATION SERVICE - INDEPENDENT LIVING SERVICES FOR OLDER INDIVIDUALS WHO ARE BLIND	NA	WORKFORCE DEVELOPMENT CABINET	233,445
84.181 SPECIAL EDUCATION - GRANTS FOR INFANTS AND FAMILIES WITH DISABILITIES	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	3,660,194
84.185 ROBERT C.BYRD HONORS SCHOLARSHIPS	NA	DEPARTMENT OF EDUCATION	421,798
84.186 SAFE AND DRUG-FREE SCHOOLS - STATE GRANTS	NA	DEPARTMENT OF EDUCATION	4,062,057
84.186 SAFE AND DRUG-FREE SCHOOLS - STATE GRANTS	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	634,072

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<u>U.S. DEPARTMENT OF EDUCATION (CONTINUED)</u>				
DIRECT PROGRAMS (CONTINUED):				
84.187	SUPPORTED EMPLOYMENT SERVICES FOR INDIVIDUALS WITH SEVERE DISABILITIES	NA	WORKFORCE DEVELOPMENT CABINET	523,793
84.190	CHRISTA MCAULIFFE FELLOWSHIPS	NA	DEPARTMENT OF EDUCATION	31,115
84.192	ADULT EDUCATION - LITERACY TRAINING FOR HOMELESS ADULTS	NA	WORKFORCE DEVELOPMENT CABINET	266,776
84.194	BILINGUAL EDUCATION SUPPORT SERVICES	NA	DEPARTMENT OF EDUCATION	25,532
84.196	EDUCATION FOR HOMELESS CHILDREN AND YOUTH	NA	DEPARTMENT OF EDUCATION	287,291
84.198	WORKPLACE LITERACY PARTNERSHIP	NA	WORKFORCE DEVELOPMENT CABINET	10,417
84.199	VOCATIONAL EDUCATION-COOPERATIVE DEMONSTRATION (NOTE 16)	NA	OFFICE OF THE GOVERNOR	
84.203	STAR SCHOOLS	NA	FINANCE AND ADMINISTRATION CABINET	2,641,738
84.211	FIRST SCHOOLS AND TEACHERS	NA	DEPARTMENT OF EDUCATION	158,871
84.213	EVEN START - STATE EDUCATIONAL AGENCIES	NA	DEPARTMENT OF EDUCATION	1,627,594
84.214	EVEN START - MIGRANT EDUCATION	NA	DEPARTMENT OF EDUCATION	97,496
84.215	FUND FOR IMPROVEMENT IN EDUCATION	NA	KENTUCKY EDUCATIONAL TELEVISION FOUNDATION	302,952
84.216	CAPITAL EXPENSES	NA	DEPARTMENT OF EDUCATION	118,839
84.218	STATE SCHOOL IMPROVEMENT GRANTS	NA	DEPARTMENT OF EDUCATION	483,519
84.224	STATE GRANTS PROGRAM FOR ASSISTIVE TECHNOLOGY	NA	WORKFORCE DEVELOPMENT CABINET	691,313
84.240	PROGRAM OF PROTECTION AND ADVOCACY OF INDIVIDUAL RIGHTS	NA	DEPARTMENT OF PUBLIC ADVOCACY	109,608
84.243	TECH-PREP EDUCATION	NA	WORKFORCE DEVELOPMENT CABINET	1,995,186
84.253	SUPPLEMENTARY STATE GRANTS FOR FACILITIES, EQUIPMENT, AND OTHER PROGRAM IMPROVEMENT ACTIVITIES (NOTE 16)	NA	WORKFORCE DEVELOPMENT CABINET	
84.254	STATE LITERACY RESOURCE CENTERS	NA	WORKFORCE DEVELOPMENT CABINET	88,086
84.257	NATIONAL INSTITUTE FOR LITERACY	NA	WORKFORCE DEVELOPMENT CABINET	218,996
84.265	REHABILITATION TRAINING - STATE VOCATIONAL REHABILITATION UNIT IN-SERVICE TRAINING	NA	WORKFORCE DEVELOPMENT CABINET	116,959
84.276	GOALS 2000 - STATE AND LOCAL EDUCATION SYSTEMIC IMPROVEMENT GRANTS	NA	DEPARTMENT OF EDUCATION	5,464,004
84.278	SCHOOL - TO -WORK IMPLEMENTATION GRANT (NOTE 15)	NA	WORKFORCE DEVELOPMENT CABINET	6,367,772
84.281	EISENHOWER PROFESSIONAL DEVELOPMENT STATE GRANTS	NA	COUNCIL ON HIGHER EDUCATION	206,335
84.281	EISENHOWER PROFESSIONAL DEVELOPMENT STATE GRANTS	NA	DEPARTMENT OF EDUCATION	1,165,113
84.298	INNOVATIVE EDUCATION PROGRAM STRATEGIES	NA	DEPARTMENT OF EDUCATION	3,179,826

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<u>U.S. DEPARTMENT OF EDUCATION (CONTINUED)</u>				
PASSED THROUGH FROM WORKFORCE DEVELOPMENT CABINET-DEPARTMENT FOR THE BLIND:				
84.126	REHABILITATION SERVICES - VOCATIONAL REHABILITATION GRANTS TO STATES (NOTE 2)	NA	DEPARTMENT OF EDUCATION	22,991
84.224	STATE GRANTS FOR ASSISTIVE TECHNOLOGY	H224A90002-92	KENTUCKY CENTER FOR THE ARTS CORPORATION	407
84.224	STATE GRANTS FOR ASSISTIVE TECHNOLOGY	NA	DEPARTMENT OF PUBLIC ADVOCACY	79,843
PASSED THROUGH FROM DEPARTMENT OF EDUCATION:				
84.009	EDUCATION OF CHILDREN WITH DISABILITIES IN STATE OPERATED OR SUPPORTED SCHOOLS	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	107,574
84.013	TITLE I PROGRAM FOR NEGLECTED AND DELINQUENT CHILDREN (NOTE 16)	759N&D	DEPARTMENT OF CORRECTIONS	
84.013	TITLE I PROGRAM FOR NEGLECTED AND DELINQUENT CHILDREN	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	612,039
84.027	SPECIAL EDUCATION - GRANTS TO STATES (NOTE 2)	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	76,508
PASSED THROUGH FROM LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT:				
NA	LIFE SKILLS REINTEGRATION PROGRAM	V255A40109	KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION	8,318
PASSED THROUGH FROM WORKFORCE DEVELOPMENT CABINET:				
84.002	ADULT EDUCATION - STATE GRANT PROGRAM (NOTE 16)	NA	KENTUCKY EDUCATIONAL TELEVISION FOUNDATION	
84.048	VOCATIONAL EDUCATION - BASIC GRANTS TO STATES (NOTE 2)	NA	DEPARTMENT OF EDUCATION	6,561,413
84.049	VOCATIONAL EDUCATION - CONSUMER AND HOMEMAKING EDUCATION	NA	DEPARTMENT OF EDUCATION	243,230
84.174	VOCATIONAL EDUCATION - COMMUNITY BASED ORGANIZATIONS	NA	DEPARTMENT OF EDUCATION	57,462
84.199	VOCATIONAL EDUCATION - COOPERATIVE DEMONSTRATION	NA	DEPARTMENT OF EDUCATION	31,537
84.199	VOCATIONAL EDUCATION - COOPERATIVE DEMONSTRATION	NA	LABOR CABINET	44,689
84.243	TECH - PREP EDUCATION	NA	DEPARTMENT OF EDUCATION	10,000
84.278	GENERAL ADMINISTRATION AND PROGRAM SUPPORT SCHOOL TO WORK GRANT	NA	DEPARTMENT OF EDUCATION	64,939

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<u>U.S. DEPARTMENT OF EDUCATION (CONTINUED)</u>			
PASSED THROUGH FROM UNIVERSITY OF LOUISVILLE:			
84.262 MINORITY TEACHER RETIREMENT	NA	DEPARTMENT OF EDUCATION	58,768
PASSED THROUGH FROM KENTUCKY SCIENCE AND TECHNOLOGY COUNCIL:			
84.164 EISENHOWER MATHEMATICS AND SCIENCE EDUCATION - STATE GRANTS (NOTE 16)	NA	KENTUCKY EDUCATIONAL TELEVISION FOUNDATON	
PASSED THROUGH FROM CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12):			
84.186 SAFE AND DRUG-FREE SCHOOLS - STATE GRANTS	NA	DEPARTMENT OF STATE POLICE	43,952
SUBTOTAL U.S. DEPARTMENT OF EDUCATION			325,834,125
<u>U.S. NATIONAL ARCHIVES AND RECORDS ADMINISTRATION</u>			
DIRECT PROGRAM:			
89.003 NATIONAL HISTORICAL PUBLICATIONS AND RECORDS GRANTS	NA	KENTUCKY HISTORICAL SOCIETY	3,195
SUBTOTAL U.S. NATIONAL ARCHIVES AND RECORDS ADMINISTRATION			3,195
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
DIRECT PROGRAMS:			
93.041 SPECIAL PROGRAMS FOR THE AGING-TITLE VII, CHAPTER 3-PROGRAMS FOR PREVENTION OF ELDER ABUSE, NEGLECT AND EXPLOITATION	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	79,350
93.042 SPECIAL PROGRAMS FOR THE AGING-TITLE VII, CHAPTER 2-LONG TERM CARE OMBUDSMAN SERVICES FOR OLDER INDIVIDUALS	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	73,054
93.043 SPECIAL PROGRAMS FOR THE AGING-TITLE III, PART F-DISEASE PREVENTION & HEALTH PROMOTION SERVICES	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	294,380

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<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (CONTINUED)</u> DIRECT PROGRAMS (CONTINUED):			
93.044 SPECIAL PROGRAMS FOR THE AGING - TITLE III, PART B-GRANTS FOR SUPPORTIVE SERVICES AND SENIOR CENTERS	NA	WORKFORCE DEVELOPMENT CABINET	155,287
93.044 SPECIAL PROGRAMS FOR THE AGING - TITLE III, PART B-GRANTS FOR SUPPORTIVE SERVICES AND SENIOR CENTERS	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	4,847,107
93.045 SPECIAL PROGRAMS FOR THE AGING-TITLE III, PART C-NUTRITION SERVICES	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	6,881,223
93.046 SPECIAL PROGRAMS FOR THE AGING-TITLE III, PART D-IN-HOME SERVICES FOR FRAIL OLDER INDIVIDUALS	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	185,278
93.048 SPECIAL PROGRAMS FOR THE AGING-TITLE IV-TRAINING, RESEARCH AND DISCRETIONARY PROJECTS AND PROGRAMS	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	10,715
93.049 SPECIAL PROGRAMS FOR THE AGING-TITLE VII, CHAPTER 6-ALLOTMENTS FOR VULNERABLE ELDER RIGHTS PROTECTION PROGRAMS	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	30,683
93.050 SPECIAL PROGRAMS FOR THE AGING-TITLE II-PRECONFERENCE PROGRAMS FOR THE WHITE HOUSE CONFERENCE ON AGING	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	3,421
93.110 MATERNAL AND CHILD HEALTH FEDERAL CONSOLIDATED PROGRAMS	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	750,686
93.116 PROJECT GRANTS AND COOPERATIVE AGREEMENTS FOR TUBERCULOSIS CONTROL PROGRAMS	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	1,027,920
93.119 GRANTS FOR TECHNICAL ASSISTANCE ACTIVITIES RELATED TO THE BLOCK GRANT FOR COMMUNITY MENTAL HEALTH SERVICES - TECHNICAL ASSISTANCE CENTERS FOR EVALUATION	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	1,995
93.125 MENTAL HEALTH PLANNING AND DEMONSTRATION PROJECTS	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	205,127
93.128 GRANTS FOR TECHNICAL ASSISTANCE ACTIVITIES RELATED TO THE BLOCK GRANT FOR COMMUNITY MENTAL HEALTH SERVICES - MENTAL HEALTH STATISTICS IMPROVEMENT PROGRAM	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	82,146
93.130 PRIMARY CARE SERVICES - RESOURCE COORDINATION AND DEVELOPMENT PRIMARY CARE OFFICES	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	83,335
93.138 PROTECTION AND ADVOCACY FOR INDIVIDUALS WITH MENTAL ILLNESS	NA	DEPARTMENT OF PUBLIC ADVOCACY	291,299
93.150 PROJECTS FOR ASSISTANCE IN TRANSITION FROM HOMELESSNESS (PATH)	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	317,983

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<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (CONTINUED)</u> DIRECT PROGRAMS (CONTINUED):				
93.197	CHILDHOOD LEAD POISONING PREVENTION PROJECTS-STATE AND COMMUNITY-BASED CHILDHOOD LEAD POISONING PREVENTION AND SURVEILLANCE OF BLOOD LEVELS IN CHILDREN	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	209,316
93.217	FAMILY PLANNING - SERVICES	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	3,970,611
93.262	OCCUPATIONAL SAFETY AND HEALTH RESEARCH GRANTS	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	249,076
93.268	CHILDHOOD IMMUNIZATION GRANTS	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	3,594,129
93.283	CENTERS FOR DISEASE CONTROL AND PREVENTION - INVESTIGATIONS AND TECHNICAL ASSISTANCE	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	441,652
93.399	CANCER CONTROL	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	50,088
93.554	EMERGENCY PROTECTION GRANTS - SUBSTANCE ABUSE (NOTE 16)	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	
93.556	FAMILY PRESERVATION AND SUPPORT SERVICES	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	1,378,824
93.560	FAMILY SUPPORT PAYMENTS TO STATES - ASSISTANCE PAYMENTS (NOTE 2)	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	159,230,606
93.561	JOB OPPORTUNITIES AND BASIC SKILLS TRAINING (NOTE 2)	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	8,760,328
93.563	CHILD SUPPORT ENFORCEMENT (NOTE 2)	NA	WORKFORCE DEVELOPMENT CABINET	115
93.563	CHILD SUPPORT ENFORCEMENT (NOTE 2)	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	26,965,608
93.568	LOW-INCOME HOME ENERGY ASSISTANCE (NOTE 2)	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	17,958,674
93.569	COMMUNITY SERVICES BLOCK GRANT	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	6,655,470
93.571	COMMUNITY SERVICES BLOCK GRANT DISCRETIONARY AWARDS- COMMUNITY FOOD AND NUTRITION	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	69,950
93.572	EMERGENCY COMMUNITY SERVICES FOR THE HOMELESS	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	300,992

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<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (CONTINUED)</u> DIRECT PROGRAMS (CONTINUED):			
93.574 CHILD CARE FOR FAMILIES AT-RISK OF WELFARE DEPENDENCY	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	4,282,975
93.575 CHILD CARE AND DEVELOPMENT BLOCK GRANT (NOTE 2)	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	19,034,574
93.579 U.S. REPATRIATE PROGRAM	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	1,356
93.585 EMPOWERMENT ZONES PROGRAM	NA	FINANCE AND ADMINISTRATIVE CABINET	2,987,857
93.586 STATE COURT IMPROVEMENT PROGRAM	NA	ADMINISTRATIVE OFFICE OF THE COURTS	93,408
93.600 HEAD START	NA	DEPARTMENT OF EDUCATION	166,096
93.614 CHILD DEVELOPMENT ASSOCIATE SCHOLARSHIPS	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	10,225
93.630 DEVELOPMENTAL DISABILITIES BASIC SUPPORT AND ADVOCACY GRANTS	NA	DEPARTMENT OF PUBLIC ADVOCACY	356,234
93.630 DEVELOPMENTAL DISABILITIES BASIC SUPPORT AND ADVOCACY GRANTS	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	1,136,042
93.643 CHILDREN'S JUSTICE GRANTS TO STATES (NOTE 16)	NA	OFFICE OF THE ATTORNEY GENERAL	
93.643 CHILDREN'S JUSTICE GRANTS TO STATES	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	128,704
93.645 CHILD WELFARE SERVICES - STATE GRANTS	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	4,890,873
93.658 FOSTER CARE - TITLE IV-E (NOTE 2)	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	49,468,563
93.659 ADOPTION ASSISTANCE	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	3,828,943
93.667 SOCIAL SERVICES BLOCK GRANT (NOTE 2)	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	41,285,541
93.669 CHILD ABUSE AND NEGLECT STATE GRANTS	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	343,459
93.671 FAMILY VIOLENCE PREVENTION AND SERVICES - GRANTS TO STATES AND INDIAN TRIBES	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	315,916
93.672 COMMUNITY-BASED PREVENTION PROGRAM (NOTE 16)	NA	OFFICE OF THE ATTORNEY GENERAL	
93.673 GRANTS TO STATES FOR PLANNING AND DEVELOPMENT OF DEPENDENT CARE PROGRAMS	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	170,185

SEE ACCOMPANYING NOTES TO SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE.

COMMONWEALTH OF KENTUCKY
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE - BY FEDERAL GRANTOR
CASH ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1996
(CONTINUED)

FEDERAL GRANTOR CFDA # / PROGRAM TITLE	PASS-THROUGH GRANTOR'S #	STATE AGENCY	EXPENDITURES
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (CONTINUED)</u> DIRECT PROGRAMS (CONTINUED):			
93.674 INDEPENDENT LIVING	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	557,159
93.775 STATE MEDICAID FRAUD CONTROL UNITS	NA	OFFICE OF THE ATTORNEY GENERAL	602,539
93.777 STATE SURVEY AND CERTIFICATION OF HEALTH CARE PROVIDERS AND SUPPLIERS	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	2,845,133
93.778 MEDICAL ASSISTANCE PROGRAM (NOTE 2)	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	1,464,246,288
93.779 HEALTH CARE FINANCING RESEARCH, DEMONSTRATION AND EVALUATIONS	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	244,894
93.917 HIV CARE FORMULA GRANTS	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	972,845
93.931 DEMONSTRATION GRANTS TO STATES FOR COMMUNITY SCHOLARSHIPS	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	46,722
93.938 COOPERATIVE AGREEMENT TO SUPPORT COMPREHENSIVE SCHOOL HEALTH PROGRAMS TO PREVENT THE SPREAD OF HIV AND OTHER IMPORTANT HEALTH PROBLEMS	NA	DEPARTMENT OF EDUCATION	318,890
93.940 HIV PREVENTION ACTIVITIES - HEALTH DEPARTMENT BASED	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	1,608,850
93.944 HUMAN IMMUNODEFICIENCY VIRUS (HIV)/ACQUIRED IMMUNODEFICIENCY VIRUS SYNDROME (AIDS) SURVEILLANCE (NOTE 15)	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	129,481
93.950 CAPACITY EXPANSION PROGRAM	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	215,772
93.953 MODIFICATION OF TRAUMA CARE COMPONENT OF STATE EMS PLAN	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	46,235
93.958 BLOCK GRANTS FOR COMMUNITY MENTAL HEALTH SERVICES	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	3,444,034
93.959 BLOCK GRANTS FOR PREVENTION AND TREATMENT OF SUBSTANCE ABUSE (NOTE 2)	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	14,367,432
93.977 PREVENTIVE HEALTH SERVICES - SEXUALLY TRANSMITTED DISEASES CONTROL GRANTS	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	336,331
93.988 COOPERATIVE AGREEMENTS FOR STATE-BASED DIABETES CONTROL PROGRAMS AND EVALUATION OF SURVEILLANCE SYSTEMS	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	417,037

SEE ACCOMPANYING NOTES TO SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE.

COMMONWEALTH OF KENTUCKY
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE - BY FEDERAL GRANTOR
CASH ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1996
(CONTINUED)

FEDERAL GRANTOR CFDA # / PROGRAM TITLE		PASS-THROUGH GRANTOR'S #	STATE AGENCY	EXPENDITURES
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (CONTINUED)</u> DIRECT PROGRAMS (CONTINUED):				
93.991	PREVENTIVE HEALTH AND HEALTH SERVICES BLOCK GRANT	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	1,940,520
93.992	ALCOHOL AND DRUG ABUSE AND MENTAL HEALTH SERVICES BLOCK GRANT (NOTE 16)	NA	KENTUCKY HOUSING CORPORATION	
93.994	MATERNAL AND CHILD HEALTH SERVICES BLOCK GRANT TO THE STATES (NOTE 2)	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	14,430,810
NA	TISSUE RESIDUE INSPECTION	NA	DEPARTMENT OF AGRICULTURE	2,354
NA	CLINICAL LABORATORY IMPROVEMENT ACT (NOTE 15)	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	186,027
NA	THE PLACEMENT AND TREATMENT OF NEUROPSYCHIATRIC PATIENTS (NOTE 15)	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	460,436
NA	NATIONAL INSTITUTE OF HEALTH - STROKE BELT INITIATIVE (NOTE 15)	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	13,282
PASSED THROUGH FROM CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12) :				
93.560	FAMILY SUPPORT PAYMENTS TO STATES - ASSISTANCE PAYMENTS (NOTE 2)	NOTE 18	OFFICE OF THE ATTORNEY GENERAL	181,352
93.561	JOB OPPORTUNITIES AND BASIC SKILLS TRAINING (NOTE 2)	NA	WORKFORCE DEVELOPMENT CABINET	4,599,889
93.630	DEVELOPMENT DISABILITIES BASIC SUPPORT AND ADVOCACY GRANTS	NA	DEPARTMENT OF EDUCATION	88,776
93.630	DEVELOPMENT DISABILITIES BASIC SUPPORT AND ADVOCACY GRANTS	NA	WORKFORCE DEVELOPMENT CABINET	8,081
93.643	CHILDREN'S JUSTICE GRANTS TO STATES	NOTE 18	UNIFIED PROSECUTORIAL SYSTEM	24,382
93.667	SOCIAL SERVICES BLOCK GRANT (NOTE 2) (NOTE 16)	NA	WORKFORCE DEVELOPMENT CABINET	
93.672	COMMUNITY-BASED PREVENTION PROGRAM	01-9301-KYCAPG	OFFICE OF THE ATTORNEY GENERAL	5,337
93.778	MEDICAL ASSISTANCE PROGRAM (NOTE 2)	NOTE 18	OFFICE OF THE ATTORNEY GENERAL	87,259
93.778	MEDICAL ASSISTANCE PROGRAM (NOTE 2) (NOTE 16)	NA	WORKFORCE DEVELOPMENT CABINET	
93.958	BLOCK GRANT FOR COMMUNITY MENTAL HEALTH SERVICES	NA	WORKFORCE DEVELOPMENT CABINET	40,250
PASSED THROUGH FROM OFFICE OF THE ATTORNEY GENERAL:				
93.672	COMMUNITY-BASED PREVENTION PROGRAM	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	40,791

SEE ACCOMPANYING NOTES TO SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE.

COMMONWEALTH OF KENTUCKY
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE - BY FEDERAL GRANTOR
CASH ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1996
(CONTINUED)

<u>FEDERAL GRANTOR</u> CFDA # / PROGRAM TITLE	PASS-THROUGH GRANTOR'S #	STATE AGENCY	EXPENDITURES
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (CONTINUED)</u>			
PASSED THROUGH FROM UNIVERSITY OF KENTUCKY:			
93.672 COMMUNITY-BASED PREVENTION PROGRAM (NOTE 16)	NA	KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION	
SUBTOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>1,886,166,567</u>
<u>U.S. STATE DEPARTMENT</u> DIRECT PROGRAM:			
NA US ASIA ENVIRONMENTAL PARTNERSHIP	NA	DEPARTMENT OF COMMUNITY DEVELOPMENT	<u>88,979</u>
SUBTOTAL U.S. STATE DEPARTMENT			<u>88,979</u>
<u>U.S. CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</u> DIRECT PROGRAMS:			
94.003 STATE COMMISSION	NA	COUNCIL ON HIGHER EDUCATION	196,227
94.004 LEARN AND SERVE AMERICA - SCHOOL AND COMMUNITY BASED PROGRAMS	NA	COUNCIL ON HIGHER EDUCATION	140,000
94.004 LEARN AND SERVE AMERICA - SCHOOL AND COMMUNITY BASED PROGRAMS	NA	DEPARTMENT OF EDUCATION	324,745
94.006 AMERICORPS	NA	COUNCIL ON HIGHER EDUCATION	1,775,565
94.009 TRAINING AND TECHNICAL ASISTANCE	NA	COUNCIL ON HIGHER EDUCATION	61,881
94.011 FOSTER GRANDPARENT PROGRAM	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	445,772

SEE ACCOMPANYING NOTES TO SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE.

COMMONWEALTH OF KENTUCKY
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE - BY FEDERAL GRANTOR
CASH ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1996
(CONTINUED)

FEDERAL GRANTOR CFDA # / PROGRAM TITLE	PASS-THROUGH GRANTOR'S #	STATE AGENCY	EXPENDITURES
<u>U.S. CORPORATION FOR NATIONAL AND COMMUNITY SERVICE (CONTINUED)</u>			
PASSED THROUGH FROM COUNCIL ON HIGHER EDUCATION:			
94.004 LEARN AND SERVE AMERICA - SCHOOL AND COMMUNITY BASED PROGRAMS	94LCSKY003	ADMINISTRATIVE OFFICE OF THE COURTS	<u>22,734</u>
SUBTOTAL U.S. CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			<u>2,966,924</u>
<u>U.S. SOCIAL SECURITY ADMINISTRATION</u>			
DIRECT PROGRAM:			
96.001 SOCIAL SECURITY - DISABILITY INSURANCE (NOTE 2)	NA	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	<u>24,126,955</u>
SUBTOTAL U.S. SOCIAL SECURITY ADMINISTRATION			<u>24,126,955</u>
<u>U.S. ARMY CORPS OF ENGINEERS</u>			
DIRECT PROGRAM:			
NA U.S. ARMY CORPS OF ENGINEERS CONDITIONAL PROJECTS (NOTE 13)	NA	DEPARTMENT OF FISH AND WILDLIFE RESOURCES	<u>22,263</u>
SUBTOTAL U.S. ARMY CORPS OF ENGINEERS			<u>22,263</u>
<u>U.S. NATIONAL OCCUPATIONAL INFORMATION COORDINATING COMMITTEE</u>			
DIRECT PROGRAM:			
NA NATIONAL OCCUPATIONAL INFORMATION COORDINATING COMMITTEE	NA	WORKFORCE DEVELOPMENT CABINET	<u>141,738</u>
SUBTOTAL U.S. NATIONAL OCCUPATIONAL INFORMATION COORDINATING COMMITTEE			<u>141,738</u>

SEE ACCOMPANYING NOTES TO SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE.

COMMONWEALTH OF KENTUCKY
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE - BY FEDERAL GRANTOR
CASH ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1996
(CONTINUED)

<u>FEDERAL GRANTOR</u>	PASS-THROUGH	STATE AGENCY	EXPENDITURES
CFDA # / PROGRAM TITLE	GRANTOR'S #		
<u>OTHER FEDERAL ASSISTANCE</u>			
DIRECT PROGRAM:			
NA JOINT FUNDING ADMINISTRATION (NOTE 9)	NA	DEPARTMENT FOR LOCAL GOVERNMENT	<u>1,566,000</u>
SUBTOTAL OTHER FEDERAL ASSISTANCE			<u>1,566,000</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE EXPENDED - CASH ASSISTANCE PROGRAMS			<u><u>\$ 3,065,603,940</u></u>

SEE ACCOMPANYING NOTES TO SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE.

COMMONWEALTH OF KENTUCKY
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE - BY FEDERAL GRANTOR
NONCASH ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1996

<u>FEDERAL GRANTOR</u> CFDA # / PROGRAM TITLE		STATE AGENCY	EXPENDITURES	METHOD/BASIS OF VALUATION
<u>U.S DEPARTMENT OF AGRICULTURE</u> DIRECT PROGRAMS:				
10.550	FOOD DISTRIBUTION (NOTE 2) (NOTE 5)	DEPARTMENT OF AGRICULTURE	\$ 13,410,104	USDA'S VALUE AT THE TIME OF DELIVERY TO RECIPIENT AGENCIES.
10.551	FOOD STAMPS (NOTE 2) (NOTE 4)	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	417,255,481	COUPON VALUE.
10.565	COMMODITY SUPPLEMENTAL FOOD PROGRAM (NOTE 5)	DEPARTMENT OF AGRICULTURE	1,330,311	QUANTITY ISSUED TO RECIPIENTS VALUED AT USDA'S MAY 1996 PRICES.
10.569	EMERGENCY FOOD ASSISTANCE PROGRAM (FOOD COMMODITIES) (NOTE 4)	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	745,165	DOLLAR VALUE PER POUND AS OF DATE OF DISTRIBUTION AS LISTED IN THE FEDERAL PRICE FILE PROVIDED TO STATES BY USDA.
10.664	COOPERATIVE FORESTRY ASSISTANCE	NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET	2,896,387	ORIGINAL FEDERAL ACQUISITION COST OF SURPLUS FIRE FIGHTING VEHICLES AND EQUIPMENT.
NA	MEMORANDUM OF AGREEMENT NO. 68-5C16-S-019	NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET	27,575	SOIL CONSERVATION SERVICE ASSISTS STATE IN PAYING THE AMOUNT OF SALARY IN EXCESS OF \$24,000.
PASSED THROUGH FROM DEPARTMENT OF AGRICULTURE:				
10.550	FOOD DISTRIBUTION (NOTE 2) (NOTE 5)	DEPARTMENT OF CORRECTIONS	120,840	VALUE OF PRODUCT RECEIVED FROM USDA OFFICE.
SUBTOTAL U.S. DEPARTMENT OF AGRICULTURE			435,785,863	
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u> DIRECT PROGRAM:				
NA	FHA/VA INSURED LOANS (NOTE 2)	KENTUCKY HOUSING CORPORATION	(NOTE 3h)	
SUBTOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			0	

SEE ACCOMPANYING NOTES TO SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE.

COMMONWEALTH OF KENTUCKY
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE - BY FEDERAL GRANTOR
NONCASH ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1996
(CONTINUED)

<u>FEDERAL GRANTOR</u>			
CFDA # / PROGRAM TITLE	STATE AGENCY	EXPENDITURES	METHOD/BASIS OF VALUATION
<u>U.S. GENERAL SERVICES ADMINISTRATION</u>			
DIRECT PROGRAM:			
39.003	DONATION OF FEDERAL SURPLUS PERSONAL FINANCE AND ADMINISTRATION CABINET PROPERTY	3,470,109	23.3% OF FEDERAL ACQUISITION COST.
SUBTOTAL U.S. GENERAL SERVICES ADMINISTRATION		<u>3,470,109</u>	
<u>U.S. SMALL BUSINESS ADMINISTRATION</u>			
DIRECT PROGRAM:			
59.041	CERTIFIED DEVELOPMENT COMPANY LOANS COMMONWEALTH SMALL BUSINESS (504 LOANS) (NOTE 2) DEVELOPMENT CORPORATION	(NOTE 3c)	
SUBTOTAL U.S. SMALL BUSINESS ADMINISTRATION		<u>0</u>	

SEE ACCOMPANYING NOTES TO SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE.

COMMONWEALTH OF KENTUCKY
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE - BY FEDERAL GRANTOR
NONCASH ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1996
(CONTINUED)

<u>FEDERAL GRANTOR</u>				
<u>CFDA # / PROGRAM TITLE</u>		<u>STATE AGENCY</u>	<u>EXPENDITURES</u>	<u>METHOD/BASIS OF VALUATION</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>				
DIRECT PROGRAMS:				
93.116	PROJECT GRANTS AND COOPERATIVE AGREEMENTS FOR TUBERCULOSIS CONTROL PROGRAMS	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	33,523	PER AUTHORIZED AWARD FOR PERSONNEL COSTS AND TRAVEL.
93.268	CHILDHOOD IMMUNIZATION GRANTS (NOTE 4)	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	2,063,221	PER AUTHORIZED AWARD FOR VACCINE AND PERSONNEL COSTS.
93.940	HIV PREVENTION ACTIVITIES - HEALTH DEPARTMENT BASED	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	41,641	PER AUTHORIZED AWARD FOR OTHER COSTS AND PERSONNEL COSTS.
93.977	PREVENTIVE HEALTH SERVICES - SEXUALLY TRANSMITTED DISEASES CONTROL GRANTS	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	76,120	PER AUTHORIZED AWARD FOR PERSONNEL COSTS AND TRAVEL.
93.988	COOPERATIVE AGREEMENTS FOR STATE-BASED DIABETES CONTROL PROGRAMS AND EVALUATION OF SURVEILLANCE SYSTEMS	CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	5,000	PER AUTHORIZED AWARD FOR TRAVEL.
SUBTOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>2,219,505</u>	
TOTAL FEDERAL FINANCIAL ASSISTANCE EXPENDED - NONCASH ASSISTANCE PROGRAMS			<u>\$ 441,475,477</u>	

SEE ACCOMPANYING NOTES TO SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE.

COMMONWEALTH OF KENTUCKY
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE - BY STATE AGENCY
CASH ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1996

<u>STATE AGENCY</u> <u>FEDERAL GRANTOR</u> <u>CFDA #/ PROGRAM TITLE</u>	<u>PASS-THROUGH</u> <u>GRANTOR'S #</u>	<u>EXPENDITURES</u>
<u>ADMINISTRATIVE OFFICE OF THE COURTS</u>		
<u>U.S. DEPARTMENT OF JUSTICE</u>		
PASSED THROUGH FROM JUSTICE CABINET - DIVISION OF GRANTS MANAGEMENT:		
16.579 DRUG CONTROL AND SYSTEM IMPROVEMENT - FORMULA GRANT	5072-N15B-4/93	\$ 31,718
16.588 VIOLENCE AGAINST WOMEN FORMULA GRANTS	5326-VA4-1/95	31,952
16.710 PUBLIC SAFETY PARTNERSHIP AND COMMUNITY POLICING GRANTS	96-CN-WX-K001-AOC	1,544
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>		
DIRECT PROGRAM:		
93.586 STATE COURT IMPROVEMENT PROGRAM	NA	93,408
<u>U.S. CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</u>		
PASSED THROUGH FROM COUNCIL ON HIGHER EDUCATION:		
94.004 LEARN AND SERVE AMERICA - SCHOOL AND COMMUNITY BASED PROGRAMS	94LCSKY003	<u>22,734</u>
SUBTOTAL ADMINISTRATIVE OFFICE OF THE COURTS		<u>181,356</u>
<u>DEPARTMENT OF AGRICULTURE</u>		
<u>U.S. DEPARTMENT OF AGRICULTURE</u>		
DIRECT PROGRAMS:		
10.025 PLANT AND ANIMAL DISEASE, PEST CONTROL, AND ANIMAL CARE	NA	47,275
10.153 MARKET NEWS	NA	5,822

SEE ACCOMPANYING NOTES TO SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE.

COMMONWEALTH OF KENTUCKY
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE - BY STATE AGENCY
CASH ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1996
(CONTINUED)

STATE AGENCY FEDERAL GRANTOR CFDA #/ PROGRAM TITLE	PASS-THROUGH GRANTOR'S #	EXPENDITURES
<u>DEPARTMENT OF AGRICULTURE (CONTINUED)</u>		
<u>U.S. DEPARTMENT OF AGRICULTURE (CONTINUED)</u> DIRECT PROGRAMS: (CONTINUED)		
10.162 INSPECTION GRADING AND STANDARDIZATION	NA	4,859
10.164 WHOLESALE MARKET DEVELOPMEMT	NA	9,190
10.560 STATE ADMINISTRATIVE EXPENSES FOR CHILD NUTRITION	NA	109,555
10.565 COMMODITY SUPPLEMENTAL FOOD PROGRAM (NOTE 5)	NA	371,227
10.572 WIC FARMERS' MARKET NUTRITION PROGRAM	NA	40,789
NA KENTUCKY RURAL REHABILITATION STUDENT LOAN PROGRAM (NOTE 3a)	NA	117,465
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u> DIRECT PROGRAM:		
66.700 CONSOLIDATED PESTICIDE COMPLIANCE MONITORING AND PROGRAM COOPERATIVE AGREEMENTS	NA	558,270
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u> DIRECT PROGRAM:		
NA TISSUE RESIDUE INSPECTION	NA	2,354
SUBTOTAL DEPARTMENT OF AGRICULTURE		1,266,806
<u>KENTUCKY ARTS COUNCIL</u>		
<u>U.S. APPALACHIAN REGIONAL COMMISSION</u> DIRECT PROGRAM:		
23.011 APPALACHIAN STATE RESEARCH, TECHNICAL ASSISTANCE, AND DEMONSTRATION PROJECT	NA	25,300
SEE ACCOMPANYING NOTES TO SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE.		

COMMONWEALTH OF KENTUCKY
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE - BY STATE AGENCY
CASH ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1996
(CONTINUED)

STATE AGENCY FEDERAL GRANTOR CFDA #/ PROGRAM TITLE	PASS-THROUGH GRANTOR'S #	EXPENDITURES
<u>KENTUCKY ARTS COUNCIL (CONTINUED)</u>		
<u>U.S. NATIONAL FOUNDATION ON THE ARTS AND THE HUMANITIES</u>		
DIRECT PROGRAMS:		
45.024 PROMOTION OF THE ARTS-GRANTS TO ORGANIZATIONS AND INDIVIDUALS (NOTE 15)	NA	138,500
45.025 PROMOTION OF THE ARTS-PARTNERSHIP AGREEMENTS (NOTE 15)	NA	<u>455,300</u>
SUBTOTAL KENTUCKY ARTS COUNCIL		<u>619,100</u>
<u>OFFICE OF THE ATTORNEY GENERAL</u>		
<u>U.S. DEPARTMENT OF AGRICULTURE</u>		
PASSED THROUGH FROM CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12):		
10.557 SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS AND CHILDREN (NOTE 2)	F43703, F53703, F63703	8,560
10.561 STATE ADMINISTRATIVE MATCHING GRANTS FOR FOOD STAMP PROGRAM (NOTE 2)	F43404, F53404, F63404	206,755
<u>U.S. DEPARTMENT OF JUSTICE</u>		
DIRECT PROGRAM:		
16.550 CRIMINAL JUSTICE STATISTICS DEVELOPMENT (NOTE 16)	NA	
PASSED THROUGH FROM JUSTICE CABINET - DIVISION OF GRANTS MANAGEMENT:		
16.579 DRUG CONTROL AND SYSTEM IMPROVEMENT-FORMULA GRANT	5170-N26-1/95	50,229

SEE ACCOMPANYING NOTES TO SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE.

COMMONWEALTH OF KENTUCKY
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE - BY STATE AGENCY
CASH ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1996
(CONTINUED)

STATE AGENCY FEDERAL GRANTOR CFDA #/ PROGRAM TITLE	PASS-THROUGH GRANTOR'S #	EXPENDITURES
<u>OFFICE OF THE ATTORNEY GENERAL (CONTINUED)</u>		
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>		
DIRECT PROGRAMS:		
93.643 CHILDREN'S JUSTICE GRANTS TO STATES (NOTE 16)	NA	
93.672 COMMUNITY-BASED PREVENTION PROGRAM (NOTE 16)	NA	
93.775 STATE MEDICAID FRAUD CONTROL UNITS	NA	602,539
PASSED THROUGH FROM CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12):		
93.560 FAMILY SUPPORT PAYMENTS TO STATES-ASSISTANCE PAYMENTS (NOTE 2)	G-9404 KY 4013	181,352
	G-9504 KY 4013	
	G-9604 KY 4013	
93.672 COMMUNITY-BASED PREVENTION PROGRAM	01-9301-KYCAPG	5,337
93.778 MEDICAL ASSISTANCE PROGRAM (NOTE 2)	5-9405 KY 5048	87,259
	5-9505 KY 5048	
	5-9605 KY 5048	
SUBTOTAL OFFICE OF THE ATTORNEY GENERAL		1,142,031
<u>KENTUCKY CENTER FOR THE ARTS CORPORATION</u>		
<u>U.S. NATIONAL FOUNDATION ON THE ARTS AND THE HUMANITIES:</u>		
PASSED THROUGH FROM SOUTHERN ARTS FEDERATION:		
45.002 PROMOTION OF THE ARTS - DANCE	029/96	2,100
45.008 PROMOTION OF THE ARTS - THEATER	098/96	5,000
45.011 PROMOTION OF THE ARTS - PRESENTING (NOTE 16)	039/95F	
	038/95F	
	037/95F	

SEE ACCOMPANYING NOTES TO SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE.

COMMONWEALTH OF KENTUCKY
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STATE AGENCY FEDERAL GRANTOR CFDA #/ PROGRAM TITLE	PASS-THROUGH GRANTOR'S #	EXPENDITURES
<u>KENTUCKY CENTER FOR THE ARTS CORPORATION (CONTINUED)</u>		
<u>U.S. NATIONAL FOUNDATION ON THE ARTS AND THE HUMANITIES: (CONTINUED)</u>		
PASSED THROUGH FROM KENTUCKY ARTS COUNCIL:		
45.003 PROMOTION OF THE ARTS - ARTS IN EDUCATION	96-9005	22,894
45.007 PROMOTION OF THE ARTS - STATE AND REGIONAL PROGRAM	96-4115	3,000
PASSED THROUGH FROM KENTUCKY HUMANITIES COUNCIL:		
45.129 PROMOTION OF THE HUMANITIES - FEDERAL - STATE PARTNERSHIP	95-81	1,000
<u>U.S. DEPARTMENT OF EDUCATION</u>		
PASSED THROUGH FROM WORKFORCE DEVELOPMENT CABINET-DEPARTMENT FOR THE BLIND:		
84.224 STATE GRANTS FOR ASSISTIVE TECHNOLOGY	H224A90002-92	407
SUBTOTAL KENTUCKY CENTER FOR THE ARTS CORPORATION		34,401
<u>DEPARTMENT OF COMMUNITY DEVELOPMENT</u>		
<u>U.S. DEPARTMENT OF COMMERCE</u>		
DIRECT PROGRAM:		
11.611 MANUFACTURING EXTENSION PARTNERSHIP	NA	277,572
<u>U.S. DEPARTMENT OF DEFENSE</u>		
DIRECT PROGRAM:		
12.002 PROCUREMENT TECHNICAL ASSISTANCE FOR BUSINESS FIRMS	NA	156,137
SEE ACCOMPANYING NOTES TO SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE.		

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STATE AGENCY FEDERAL GRANTOR CFDA #/ PROGRAM TITLE	PASS-THROUGH GRANTOR'S #	EXPENDITURES
<u>DEPARTMENT OF COMMUNITY DEVELOPMENT (CONTINUED)</u>		
<u>APPALACHIAN REGIONAL COMMISSION</u> DIRECT PROGRAM:		
23.001 APPALACHIAN REGIONAL DEVELOPMENT	NA	110,857
<u>U.S. STATE DEPARTMENT</u> DIRECT PROGRAM:		
NA U.S. ASIA ENVIRONMENTAL PARTNERSHIP	NA	<u>88,979</u>
SUBTOTAL DEPARTMENT OF COMMUNITY DEVELOPMENT		<u>633,545</u>
<u>DEPARTMENT OF CORRECTIONS</u>		
<u>U.S. DEPARTMENT OF JUSTICE</u> DIRECT PROGRAM:		
16.574 CRIMINAL JUSTICE DISCRETIONARY GRANT PROGRAM	NA	241,879

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STATE AGENCY FEDERAL GRANTOR CFDA #/ PROGRAM TITLE	PASS-THROUGH GRANTOR'S #	EXPENDITURES
<u>DEPARTMENT OF CORRECTIONS (CONTINUED)</u>		
<u>U.S. DEPARTMENT OF JUSTICE (CONTINUED)</u>		
PASSED THROUGH FROM JUSTICE CABINET- DIVISION OF GRANTS MANAGEMENT:		
16.579 DRUG CONTROL AND SYSTEM IMPROVEMENT - FORMULA GRANT	5220-N11-1/92	58,327
	5321-N18-1/93	40,982
	5323-N15B-1/94	129,624
	5322-N15B-2/95	1,420
	4675-N11-1/91	38,461
	4881-N11-2/92	11,200
	4963-N11-3/93	55,087
	5217-N15A-1/95	262,842
	95P01GIC1	1,388
	5165-N18-1/94	7,956
	5159-N11-1/92	21,151
	5101-N15A-3194	91,688
	5219-N18-2/95	29,840
	5218-N15-4/95	328,105
<u>U.S. DEPARTMENT OF EDUCATION</u>		
PASSED THROUGH FROM DEPARTMENT OF EDUCATION:		
84.013 TITLE I PROGRAM FOR NEGLECTED AND DELINQUENT CHILDREN (NOTE 16)	759N&D	
SUBTOTAL DEPARTMENT OF CORRECTIONS		<u>1,319,950</u>

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STATE AGENCY FEDERAL GRANTOR CFDA #/ PROGRAM TITLE	PASS-THROUGH GRANTOR'S #	EXPENDITURES
<u>CRIME VICTIMS COMPENSATION BOARD</u>		
<u>U.S. DEPARTMENT OF JUSTICE</u>		
DIRECT PROGRAM:		
16.576 CRIME VICTIM COMPENSATION	NA	289,153
SUBTOTAL CRIME VICTIMS COMPENSATION BOARD		289,153
<u>DEPARTMENT OF EDUCATION</u>		
<u>U.S. DEPARTMENT OF AGRICULTURE</u>		
DIRECT PROGRAMS:		
10.553 SCHOOL BREAKFAST PROGRAM (NOTE 2)	NA	23,631,732
10.555 NATIONAL SCHOOL LUNCH PROGRAM (NOTE 2)	NA	77,393,029
10.556 SPECIAL MILK PROGRAM FOR CHILDREN	NA	113,685
10.558 CHILD AND ADULT CARE FOOD PROGRAM (NOTE 2)	NA	13,724,813
10.559 SUMMER FOOD SERVICES PROGRAM FOR CHILDREN	NA	3,074,562
10.560 STATE ADMINISTRATIVE EXPENSES FOR CHILD NUTRITION	NA	1,408,512
10.564 NUTRITION EDUCATION AND TRAINING PROGRAM	NA	52,622
NA KENTUCKY IA DEMONSTRATION	NA	2,014,007
<u>U.S. DEPARTMENT OF DEFENSE</u>		
DIRECT PROGRAM:		
NA TEACHER AND TEACHER'S AIDE PLACEMENT ASSISTANCE PROGRAM	NA	35,289
<u>U.S. APPALACHIAN REGIONAL COMMISSION</u>		
PASSED THROUGH FROM DEPARTMENT FOR LOCAL GOVERNMENT :		
23.001 APPALACHIAN REGIONAL DEVELOPMENT (NOTE 16)	NA	
SEE ACCOMPANYING NOTES TO SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE.		

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STATE AGENCY FEDERAL GRANTOR CFDA #/ PROGRAM TITLE	PASS-THROUGH GRANTOR'S #	EXPENDITURES
<u>DEPARTMENT OF EDUCATION (CONTINUED)</u>		
<u>U.S. NATIONAL SCIENCE FOUNDATION</u> DIRECT PROGRAM:		
47.076 EDUCATION AND HUMAN RESOURCES	NA	1,997,445
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u> DIRECT PROGRAM:		
66.951 ENVIRONMENTAL EDUCATION GRANTS	NA	204
<u>U.S. DEPARTMENT OF EDUCATION</u> DIRECT PROGRAMS:		
84.004 DESEGREGATION ASSISTANCE, CIVIL RIGHTS TRAINING, AND ADVISORY SERVICES	NA	204,296
84.009 EDUCATION OF CHILDREN WITH DISABILITIES IN STATE OPERATED OR SUPPORTED SCHOOLS	NA	27,044
84.010 TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES (NOTE 2)	NA	120,012,180
84.011 MIGRANT EDUCATION - BASIC STATE GRANT PROGRAM	NA	6,103,324
84.012 EDUCATIONALLY DEPRIVED CHILDREN - STATE ADMINISTRATION	NA	332,229
84.013 TITLE I PROGRAM FOR NEGLECTED AND DELINQUENT CHILDREN	NA	1,547
84.025 SERVICES FOR CHILDREN WITH DEAF-BLINDNESS	NA	103,592
84.027 SPECIAL EDUCATION - GRANTS TO STATES (NOTE 2)	NA	34,126,261
84.029 SPECIAL EDUCATION - PERSONNEL DEVELOPMENT AND PARENT TRAINING	NA	99,887
84.073 NATIONAL DIFFUSION NETWORK	NA	87,633
84.086 SPECIAL EDUCATION - PROGRAM FOR SEVERELY DISABLED CHILDREN	NA	270,185
84.151 CHAPTER 2 STATE BLOCK GRANTS	NA	1,307,827
84.158 SECONDARY EDUCATION AND TRANSITIONAL SERVICES FOR YOUTH WITH DISABILITIES	NA	458,360
84.164 EISENHOWER MATHEMATICS AND SCIENCE EDUCATION - STATE GRANTS	NA	1,661,873
84.173 SPECIAL EDUCATION - PRESCHOOL GRANTS	NA	9,722,087
84.185 ROBERT C. BYRD HONORS SCHOLARSHIPS	NA	421,798
84.186 SAFE AND DRUG-FREE SCHOOLS - STATE GRANTS	NA	4,062,057
84.190 CHRISTA MCAULIFFE FELLOWSHIPS	NA	31,115

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STATE AGENCY FEDERAL GRANTOR CFDA #/ PROGRAM TITLE	PASS-THROUGH GRANTOR'S #	EXPENDITURES
<u>DEPARTMENT OF EDUCATION (CONTINUED)</u>		
<u>U.S. DEPARTMENT OF EDUCATION (CONTINUED)</u>		
DIRECT PROGRAMS: (CONTINUED)		
84.194 BILINGUAL EDUCATION SUPPORT SERVICES	NA	25,532
84.196 EDUCATION FOR HOMELESS CHILDREN AND YOUTH	NA	287,291
84.211 FIRST SCHOOLS AND TEACHERS	NA	158,871
84.213 EVEN START - STATE EDUCATIONAL AGENCIES	NA	1,627,594
84.214 EVEN START - MIGRANT EDUCATION	NA	97,496
84.216 CAPITAL EXPENSES	NA	118,839
84.218 STATE SCHOOL IMPROVEMENT GRANTS	NA	483,519
84.276 GOALS 2000 - STATE AND LOCAL EDUCATION SYSTEMIC IMPROVEMENT GRANTS	NA	5,464,004
84.281 EISENHOWER PROFESSIONAL DEVELOPMENT STATE GRANTS	NA	1,165,113
84.298 INNOVATIVE EDUCATION PROGRAM STRATEGIES	NA	3,179,826
PASSED THROUGH FROM WORKFORCE DEVELOPMENT CABINET :		
84.048 VOCATIONAL EDUCATION - BASIC GRANTS TO STATES (NOTE 2)	NA	6,561,413
84.049 VOCATIONAL EDUCATION - CONSUMER AND HOMEMAKING EDUCATION	NA	243,230
84.174 VOCATIONAL EDUCATION - COMMUNITY BASED ORGANIZATIONS	NA	57,462
84.199 VOCATIONAL EDUCATION - COOPERATIVE DEMONSTRATION	NA	31,537
84.243 TECH - PREP EDUCATION	NA	10,000
84.278 GENERAL ADMINISTRATION AND PROGRAM SUPPORT SCHOOL TO WORK GRANT	NA	64,939
PASSED THROUGH FROM WORKFORCE DEVELOPMENT CABINET- DEPARTMENT FOR THE BLIND:		
84.126 REHABILITATION SERVICES - VOCATIONAL REHABILITATION GRANTS TO STATES (NOTE 2)	NA	22,991
PASSED THROUGH FROM UNIVERSITY OF LOUISVILLE:		
84.262 MINORITY TEACHER RETIREMENT	NA	58,768
SEE ACCOMPANYING NOTES TO SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE.		

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<u>DEPARTMENT OF EDUCATION (CONTINUED)</u>		
<u>U.S. DEPARTMENT OF ENERGY</u>		
DIRECT PROGRAM:		
NA CRUDE OIL OVERCHARGE (NOTE 19)	NA	101,714
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>		
DIRECT PROGRAMS:		
93.600 HEAD START	NA	166,096
93.938 COOPERATIVE AGREEMENT TO SUPPORT COMPREHENSIVE SCHOOL HEALTH PROGRAMS TO PREVENT THE SPREAD OF HIV AND OTHER IMPORTANT HEALTH PROBLEMS	NA	318,890
PASSED THROUGH FROM CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12):		
93.630 DEVELOPMENTAL DISABILITIES BASIC SUPPORT AND ADVOCACY GRANTS	NA	88,776
<u>U.S. CORPORATION FOR NATIONAL AND COMMUNITY SERVICES</u>		
DIRECT PROGRAM:		
94.004 LEARN AND SERVE AMERICA - SCHOOL AND COMMUNITY BASED PROGRAMS	NA	324,745
SUBTOTAL DEPARTMENT OF EDUCATION		323,137,841
<u>KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION</u>		
<u>U.S. DEPARTMENT OF COMMERCE</u>		
DIRECT PROGRAM:		
11.550 PUBLIC TELECOMMUNICATIONS FACILITIES - PLANNING AND CONSTRUCTION	NA	585,515

SEE ACCOMPANYING NOTES TO SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE.

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<u>KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION (CONTINUED)</u>		
<u>U.S. DEPARTMENT OF EDUCATION</u>		
PASSED THROUGH FROM LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT:		
NA LIFE SKILLS REINTEGRATION PROGRAM	V255A40109	8,318
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>		
PASSED THROUGH FROM UNIVERSITY OF KENTUCKY:		
93.672 COMMUNITY-BASED PREVENTION PROGRAM (NOTE 16)	NA	
SUBTOTAL KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION		593,833
<u>KENTUCKY EDUCATIONAL TELEVISION FOUNDATION</u>		
<u>U.S. NATIONAL FOUNDATION ON THE ARTS AND THE HUMANITIES</u> DIRECT PROGRAM:		
45.104 PROMOTION OF THE HUMANITIES - HUMANITIES PROJECTS IN MEDIA	NA	27,253
PASSED THROUGH FROM KENTUCKY HUMANITIES COUNCIL:		
45.129 PROMOTION OF THE HUMANITIES - FEDERAL-STATE PARTNERSHIP	NA	2,238
<u>U.S. DEPARTMENT OF EDUCATION</u> DIRECT PROGRAM:		
84.215 FUND FOR IMPROVEMENT IN EDUCATION	NA	302,952

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<u>KENTUCKY EDUCATIONAL TELEVISION FOUNDATION (CONTINUED)</u>		
<u>U.S. DEPARTMENT OF EDUCATION (CONTINUED)</u>		
PASSED THROUGH FROM WORKFORCE DEVELOPMENT CABINET:		
84.002 ADULT EDUCATION - STATE GRANT PROGRAM (NOTE 16)	NA	
PASSED THROUGH FROM KENTUCKY SCIENCE AND TECHNOLOGY COUNCIL:		
84.164 EISENHOWER MATHEMATICS AND SCIENCE EDUCATION - STATE GRANTS (NOTE 16)	NA	
<u>U.S. NATIONAL SCIENCE FOUNDATION</u> DIRECT PROGRAM:		
NA PLANNING FOR A UBIQUITOUS EDUCATIONAL NETWORK WITH ENHANCED COGNITIVE INTERACTION	NA	<u>33,465</u>
SUBTOTAL KENTUCKY EDUCATIONAL TELEVISION FOUNDATION		<u>365,908</u>
<u>CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)</u>		
<u>U.S. DEPARTMENT OF AGRICULTURE</u> DIRECT PROGRAMS:		
10.557 SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS, AND CHILDREN (NOTE 2)	NA	76,720,664
10.561 STATE ADMINISTRATIVE MATCHING GRANTS FOR FOOD STAMP PROGRAM (NOTE 2)	NA	24,991,337
10.568 EMERGENCY FOOD ASSISTANCE PROGRAM (ADMINISTRATIVE COSTS)	NA	371,239
10.570 NUTRITION PROGRAM FOR THE ELDERLY (COMMODITIES)	NA	2,039,548

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<u>CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12) (CONTINUED)</u>		
<u>U.S. DEPARTMENT OF AGRICULTURE (CONTINUED)</u>		
PASSED THROUGH FROM DEPARTMENT OF EDUCATION:		
10.553 SCHOOL BREAKFAST PROGRAM (NOTE 2)	NA	272,036
10.555 NATIONAL SCHOOL LUNCH PROGRAM (NOTE 2)	NA	261,452
<u>U.S. DEPARTMENT OF JUSTICE</u>		
DIRECT PROGRAM:		
16.579 DRUG CONTROL AND SYSTEM IMPROVEMENT - FORMULA GRANT	NA	1,740
<u>U.S. DEPARTMENT OF LABOR</u>		
DIRECT PROGRAM:		
17.235 SENIOR COMMUNITY SERVICE EMPLOYMENT PROGRAM	NA	1,606,087
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>		
PASSED THROUGH FROM DEPARTMENT OF STATE POLICE:		
20.600 STATE AND COMMUNITY HIGHWAY SAFETY	NA	123,470
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>		
DIRECT PROGRAMS:		
66.032 STATE INDOOR RADON GRANTS	NA	267,677
66.707 TSCA TITLE IV STATE LEAD GRANTS - CERTIFICATION OF LEAD-BASED PAINT PROFESSIONALS	NA	58,518

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<u>CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12) (CONTINUED)</u>		
<u>U. S. DEPARTMENT OF ENERGY</u> DIRECT PROGRAMS:		
81.042 WEATHERIZATION ASSISTANCE FOR LOW-INCOME PERSONS	NA	4,413,120
NA WEATHERIZATION - OIL OVERCHARGE FUND	NA	2,419,230
PASSED THROUGH FROM NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET:		
81.502 PADUCAH GASEOUS DIFFUSION PLANT ENVIRONMENTAL MONITORING AND OVERSIGHT (NOTE 15)	NA	221,159
<u>U.S. FEDERAL EMERGENCY MANAGEMENT AGENCY</u>		
PASSED THROUGH FROM DEPARTMENT OF MILITARY AFFAIRS:		
NA CHEMICAL STOCKPILE EMERGENCY PREPAREDNESS PROGRAM	NA	61,855
<u>U.S. DEPARTMENT OF EDUCATION</u> DIRECT PROGRAMS:		
84.181 SPECIAL EDUCATION - GRANTS FOR INFANTS AND FAMILIES WITH DISABILITIES	NA	3,660,194
84.186 SAFE AND DRUG-FREE SCHOOLS - STATE GRANTS	NA	634,072
PASSED THROUGH FROM DEPARTMENT OF EDUCATION:		
84.009 EDUCATION OF CHILDREN WITH DISABILITIES IN STATE OPERATED OR SUPPORTED SCHOOLS	NA	107,574
84.013 TITLE I PROGRAM FOR NEGLECTED AND DELINQUENT CHILDREN	NA	612,039
84.027 SPECIAL EDUCATION - GRANTS TO STATES (NOTE 2)	NA	76,508

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<u>CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12) (CONTINUED)</u>		
<u>U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u> DIRECT PROGRAMS:		
93.041 SPECIAL PROGRAMS FOR THE AGING-TITLE VII, CHAPTER 3-PROGRAMS FOR PREVENTION OF ELDER ABUSE, NEGLECT, AND EXPLOITATION	NA	79,350
93.042 SPECIAL PROGRAMS FOR THE AGING-TITLE VII, CHAPTER 2-LONG TERM CARE OMBUDSMAN SERVICES FOR OLDER INDIVIDUALS	NA	73,054
93.043 SPECIAL PROGRAMS FOR THE AGING-TITLE III, PART F-DISEASE PREVENTION & HEALTH PROMOTION SERVICES	NA	294,380
93.044 SPECIAL PROGRAMS FOR THE AGING-TITLE III, PART B-GRANTS FOR SUPPORTIVE SERVICES AND SENIOR CENTERS	NA	4,847,107
93.045 SPECIAL PROGRAMS FOR THE AGING-TITLE III, PART C-NUTRITION SERVICES	NA	6,881,223
93.046 SPECIAL PROGRAMS FOR THE AGING-TITLE III, PART D-IN-HOME SERVICES FOR FRAIL OLDER INDIVIDUALS	NA	185,278
93.048 SPECIAL PROGRAMS FOR THE AGING-TITLE IV-TRAINING, RESEARCH AND DISCRETIONARY PROJECTS AND PROGRAMS	NA	10,715
93.049 SPECIAL PROGRAMS FOR THE AGING-TITLE VII, CHAPTER 6-ALLOTMENTS FOR VULNERABLE ELDER RIGHTS PROTECTION PROGRAMS	NA	30,683
93.050 SPECIAL PROGRAMS FOR THE AGING-TITLE II-PRECONFERENCE PROGRAMS FOR THE WHITE HOUSE CONFERENCE ON AGING	NA	3,421
93.110 MATERNAL AND CHILD HEALTH FEDERAL CONSOLIDATED PROGRAMS	NA	750,686
93.116 PROJECT GRANTS AND COOPERATIVE AGREEMENTS FOR TUBERCULOSIS CONTROL PROGRAMS	NA	1,027,920
93.119 GRANTS FOR TECHNICAL ASSISTANCE ACTIVITIES RELATED TO THE BLOCK GRANT FOR COMMUNITY MENTAL HEALTH SERVICES - TECHNICAL ASSISTANCE CENTERS FOR EVALUATION	NA	1,995
93.125 MENTAL HEALTH PLANNING AND DEMONSTRATION PROJECTS	NA	205,127
93.128 GRANTS FOR TECHNICAL ASSISTANCE ACTIVITIES RELATED TO THE BLOCK GRANT FOR COMMUNITY MENTAL HEALTH SERVICES-MENTAL HEALTH STATISTICS IMPROVEMENT PROGRAM	NA	82,146

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<u>CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12) (CONTINUED)</u>		
<u>U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (CONTINUED)</u>		
DIRECT PROGRAMS: (CONTINUED)		
93.130 PRIMARY CARE SERVICES - RESOURCE COORDINATION AND DEVELOPMENT PRIMARY CARE OFFICES	NA	83,335
93.150 PROJECTS FOR ASSISTANCE IN TRANSITION FROM HOMELESSNESS (PATH)	NA	317,983
93.197 CHILDHOOD LEAD POISONING PREVENTION PROJECTS-STATE AND COMMUNITY-BASED CHILDHOOD LEAD POISONING PREVENTION & SURVEILLANCE OF BLOOD LEAD LEVELS IN CHILDREN	NA	209,316
93.217 FAMILY PLANNING - SERVICES	NA	3,970,611
93.262 OCCUPATIONAL SAFETY AND HEALTH RESEARCH GRANTS	NA	249,076
93.268 CHILDHOOD IMMUNIZATION GRANTS	NA	3,594,129
93.283 CENTERS FOR DISEASE CONTROL AND PREVENTION - INVESTIGATIONS AND TECHNICAL ASSISTANCE	NA	441,652
93.399 CANCER CONTROL	NA	50,088
93.554 EMERGENCY PROTECTION GRANTS - SUBSTANCE ABUSE (NOTE 16)	NA	
93.556 FAMILY PRESERVATION AND SUPPORT SERVICES	NA	1,378,824
93.560 FAMILY SUPPORT PAYMENTS TO STATES - ASSISTANCE PAYMENTS (NOTE 2)	NA	159,230,606
93.561 JOB OPPORTUNITIES AND BASIC SKILLS TRAINING (NOTE 2)	NA	8,760,328
93.563 CHILD SUPPORT ENFORCEMENT (NOTE 2)	NA	26,965,608
93.568 LOW-INCOME HOME ENERGY ASSISTANCE (NOTE 2)	NA	17,958,674
93.569 COMMUNITY SERVICES BLOCK GRANT	NA	6,655,470
93.571 COMMUNITY SERVICES BLOCK GRANT DISCRETIONARY AWARDS-COMMUNITY FOOD AND NUTRITION	NA	69,950
93.572 EMERGENCY COMMUNITY SERVICES FOR THE HOMELESS	NA	300,992
93.574 CHILD CARE FOR FAMILIES AT-RISK OF WELFARE DEPENDENCY	NA	4,282,975
93.575 CHILD CARE AND DEVELOPMENT BLOCK GRANT (NOTE 2)	NA	19,034,574
93.579 U.S. REPATRIATE PROGRAM	NA	1,356
93.614 CHILD DEVELOPMENT ASSOCIATE SCHOLARSHIPS	NA	10,225
93.630 DEVELOPMENTAL DISABILITIES BASIC SUPPORT AND ADVOCACY GRANTS	NA	1,136,042
93.643 CHILDREN'S JUSTICE GRANTS TO STATES	NA	128,704

SEE ACCOMPANYING NOTES TO SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE.

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<u>CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12) (CONTINUED)</u>		
<u>U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (CONTINUED)</u>		
DIRECT PROGRAMS: (CONTINUED)		
93.645 CHILD WELFARE SERVICES - STATE GRANTS	NA	4,890,873
93.658 FOSTER CARE - TITLE IV-E (NOTE 2)	NA	49,468,563
93.659 ADOPTION ASSISTANCE	NA	3,828,943
93.667 SOCIAL SERVICES BLOCK GRANT (NOTE 2)	NA	41,285,541
93.669 CHILD ABUSE AND NEGLECT STATE GRANTS	NA	343,459
93.671 FAMILY VIOLENCE PREVENTION AND SERVICES - GRANTS TO STATES AND INDIAN TRIBES	NA	315,916
93.673 GRANTS TO STATES FOR PLANNING AND DEVELOPMENT OF DEPENDENT CARE PROGRAMS	NA	170,185
93.674 INDEPENDENT LIVING	NA	557,159
93.777 STATE SURVEY AND CERTIFICATION OF HEALTH CARE PROVIDERS AND SUPPLIERS	NA	2,845,133
93.778 MEDICAL ASSISTANCE PROGRAM (NOTE 2)	NA	1,464,246,288
93.779 HEALTH CARE FINANCING RESEARCH, DEMONSTRATION AND EVALUATIONS	NA	244,894
93.917 HIV CARE FORMULA GRANTS	NA	972,845
93.931 DEMONSTRATION GRANTS TO STATES FOR COMMUNITY SCHOLARSHIPS	NA	46,722
93.940 HIV PREVENTION ACTIVITIES - HEALTH DEPARTMENT BASED	NA	1,608,850
93.944 HUMAN IMMUNODEFICIENCY VIRUS (HIV)/ACQUIRED IMMUNODEFICIENCY VIRUS SYNDROME (AIDS) SURVEILLANCE (NOTE 15)	NA	129,481
93.950 CAPACITY EXPANSION PROGRAM	NA	215,772
93.953 MODIFICATION OF TRAUMA CARE COMPONENT OF STATE EMS PLAN	NA	46,235
93.958 BLOCK GRANTS FOR COMMUNITY MENTAL HEALTH SERVICES	NA	3,444,034
93.959 BLOCK GRANTS FOR PREVENTION AND TREATMENT OF SUBSTANCE ABUSE (NOTE 2)	NA	14,367,432
93.977 PREVENTIVE HEALTH SERVICES - SEXUALLY TRANSMITTED DISEASES CONTROL GRANTS	NA	336,331
93.988 COOPERATIVE AGREEMENTS FOR STATE-BASED DIABETES CONTROL PROGRAMS AND EVALUATION OF SURVEILLANCE SYSTEMS	NA	417,037
93.991 PREVENTIVE HEALTH AND HEALTH SERVICES BLOCK GRANT	NA	1,940,520
93.994 MATERNAL AND CHILD HEALTH SERVICES BLOCK GRANT TO THE STATES (NOTE 2)	NA	14,430,810
NA CLINICAL LABORATORY IMPROVEMENT ACT (NOTE 15)	NA	186,027
NA THE PLACEMENT AND TREATMENT OF NEUROPSYCHIATRIC PATIENTS (NOTE 15)	NA	460,436
NA NATIONAL INSTITUTE OF HEALTH - STROKE BELT INITIATIVE (NOTE 15)	NA	13,282

SEE ACCOMPANYING NOTES TO SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE.

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<u>CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12) (CONTINUED)</u>		
<u>U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (CONTINUED)</u>		
PASSED THROUGH FROM OFFICE OF THE ATTORNEY GENERAL:		
93.672 COMMUNITY-BASED PREVENTION PROGRAM	NA	40,791
<u>U.S. CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</u>		
DIRECT PROGRAM:		
94.011 FOSTER GRANDPARENT PROGRAM	NA	445,772
<u>U. S. SOCIAL SECURITY ADMINISTRATION</u>		
DIRECT PROGRAM:		
96.001 SOCIAL SECURITY - DISABILITY INSURANCE (NOTE 2)	NA	24,126,955
SUBTOTAL CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)		2,672,329,868
<u>FINANCE AND ADMINISTRATION CABINET</u>		
<u>U.S. DEPARTMENT OF EDUCATION</u>		
DIRECT PROGRAM:		
84.203 STAR SCHOOLS	NA	2,641,738

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<u>FINANCE AND ADMINISTRATION CABINET (CONTINUED)</u>		
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u> DIRECT PROGRAM:		
93.585 EMPOWERMENT ZONES PROGRAM	NA	2,987,857
SUBTOTAL FINANCE AND ADMINISTRATION CABINET		5,629,595
<u>DEPARTMENT OF FISH AND WILDLIFE RESOURCES</u>		
<u>U.S. DEPARTMENT OF AGRICULTURE</u> DIRECT PROGRAM:		
NA DRUG COOPERATIVE AGREEMENT	NA	12,499
<u>U.S. DEPARTMENT OF THE INTERIOR</u> DIRECT PROGRAMS:		
15.605 SPORT FISH RESTORATION	NA	3,011,306
15.611 WILDLIFE RESTORATION	NA	3,676,138
15.612 ENDANGERED SPECIES CONSERVATION	NA	143,602
15.616 CLEAN VESSEL ACT	NA	62,520
NA FISH AND WILDLIFE COORDINATION ACT (NOTE 16)	NA	
NA NORTH AMERICAN WETLANDS CONSERVATION ACT	NA	18,644
<u>U.S. DEPARTMENT OF TRANSPORTATION</u> DIRECT PROGRAM:		
20.005 BOATING SAFETY FINANCIAL ASSISTANCE	NA	424,895

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STATE AGENCY FEDERAL GRANTOR CFDA #/ PROGRAM TITLE	PASS-THROUGH GRANTOR'S #	EXPENDITURES
<u>DEPARTMENT OF FISH AND WILDLIFE RESOURCES (CONTINUED)</u>		
<u>U.S. ARMY CORPS OF ENGINEERS</u> DIRECT PROGRAM:		
NA U.S. ARMY CORPS OF ENGINEERS CONDITIONAL PROJECTS (NOTE 13)	NA	<u>22,263</u>
SUBTOTAL DEPARTMENT OF FISH AND WILDLIFE RESOURCES		<u>7,371,867</u>
<u>OFFICE OF THE GOVERNOR</u>		
<u>U.S. DEPARTMENT OF EDUCATION</u> DIRECT PROGRAM:		
84.199 VOCATIONAL EDUCATION - COOPERATIVE DEMONSTRATION (NOTE 16)	NA	<u> </u>
SUBTOTAL OFFICE OF THE GOVERNOR		<u>0</u>
<u>KENTUCKY HERITAGE COUNCIL</u>		
<u>U.S. DEPARTMENT OF THE INTERIOR</u> DIRECT PROGRAM:		
15.904 HISTORIC PRESERVATION FUND GRANTS-IN-AID	NA	765,639

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<u>KENTUCKY HERITAGE COUNCIL (CONTINUED)</u>		
<u>U.S. APPALACHIAN REGIONAL COMMISSION</u> DIRECT PROGRAMS:		
23.011 APPALACHIAN STATE RESEARCH, TECHNICAL ASSISTANCE, AND DEMONSTRATION PROJECT	NA	17,389
SUBTOTAL KENTUCKY HERITAGE COUNCIL		783,028
<u>COUNCIL ON HIGHER EDUCATION</u>		
<u>U.S. DEPARTMENT OF EDUCATION</u> DIRECT PROGRAMS:		
84.164 EISENHOWER MATHEMATICS AND SCIENCE EDUCATION - STATE GRANTS	NA	531,997
84.281 EISENHOWER PROFESSIONAL DEVELOPMENT STATE GRANTS	NA	206,335
<u>U.S. CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</u> DIRECT PROGRAMS:		
94.003 STATE COMMISSION	NA	196,227
94.004 LEARN AND SERVE AMERICA-SCHOOL AND COMMUNITY BASED PROGRAMS	NA	140,000
94.006 AMERICORPS	NA	1,775,565
94.009 TRAINING AND TECHNICAL ASSISTANCE	NA	61,881
SUBTOTAL COUNCIL ON HIGHER EDUCATION		2,912,005

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<u>KENTUCKY HIGHER EDUCATION ASSISTANCE AUTHORITY</u>		
<u>U.S. DEPARTMENT OF EDUCATION</u> DIRECT PROGRAMS:		
84.032 FEDERAL FAMILY EDUCATION LOANS (NOTE 2) (NOTE 3f)	NA	39,217,542
84.069 STATE STUDENTS INCENTIVES GRANTS	NA	776,067
84.176 DOUGLAS TEACHER SCHOLARSHIPS (NOTE 16)	NA	
SUBTOTAL KENTUCKY HIGHER EDUCATION ASSISTANCE AUTHORITY		39,993,609
<u>KENTUCKY HIGHER EDUCATION STUDENT LOAN CORPORATION</u>		
<u>U.S. DEPARTMENT OF EDUCATION</u> DIRECT PROGRAM:		
84.032 FEDERAL FAMILY EDUCATION LOANS (NOTE 2)	NA	NOTE 3f
SUBTOTAL KENTUCKY HIGHER EDUCATION STUDENT LOAN CORPORATION		
<u>KENTUCKY HISTORICAL SOCIETY</u>		
<u>U.S. DEPARTMENT OF TRANSPORTATION</u> DIRECT PROGRAM:		
20.205 HIGHWAY PLANNING AND CONSTRUCTION (NOTE 2)	NA	13,384

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<u>KENTUCKY HISTORICAL SOCIETY (CONTINUED)</u>		
<u>U.S. NATIONAL FOUNDATION ON THE ARTS AND HUMANITIES</u> DIRECT PROGRAMS:		
45.024 PROMOTION OF THE ARTS-GRANTS TO ORGANIZATIONS AND INDIVIDUALS (NOTE 15)	NA	3,193
45.129 PROMOTION OF THE HUMANITIES-FEDERAL-STATE PARTNERSHIP	NA	4,356
45.301 INSTITUTE OF MUSEUM SERVICES	NA	14,923
PASSED THROUGH FROM KENTUCKY ARTS COUNCIL:		
45.024 PROMOTION OF THE ARTS-GRANTS TO ORGANIZATIONS AND INDIVIDUALS (NOTE 15)	2621, 2539	7,850
<u>U.S. NATIONAL ARCHIVES AND RECORDS ADMINISTRATION</u> DIRECT PROGRAM:		
89.003 NATIONAL HISTORICAL PUBLICATIONS AND RECORDS GRANTS	NA	3,195
SUBTOTAL KENTUCKY HISTORICAL SOCIETY		46,901
<u>DEPARTMENT OF HOUSING, BUILDINGS, AND CONSTRUCTION</u>		
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u> DIRECT PROGRAM:		
NA MANUFACTURED CONSTRUCTION HOME PROGRAM (NOTE 14)	NA	

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<u>DEPARTMENT OF HOUSING, BUILDINGS, AND CONSTRUCTION (CONTINUED)</u>		
<u>U.S. DEPARTMENT OF ENERGY</u>		
PASSED THROUGH FROM NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET:		
81.041 STATE ENERGY CONSERVATION	NA	3,480
SUBTOTAL DEPARTMENT OF HOUSING, BUILDINGS, AND CONSTRUCTION		3,480
<u>KENTUCKY HOUSING CORPORATION</u>		
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>		
DIRECT PROGRAMS:		
14.182 LOWER INCOME HOUSING ASSISTANCE PROGRAM-SECTION 8 NEW CONSTRUCTION/ SUBSTANTIAL REHABILITATION (NOTE 2)	NA	72,078,583
14.185 HOMEOWNERSHIP AND OPPORTUNITY FOR PEOPLE EVERYWHERE	NA	62,405
14.231 EMERGENCY SHELTER GRANTS PROGRAM	NA	1,050,031
14.235 SUPPORTIVE HOUSING PROGRAM	NA	742,934
14.238 SHELTER PLUS CARE	NA	51,489
14.239 HOME INVESTMENT PARTNERSHIPS PROGRAM	NA	8,782,135
14.855 SECTION 8 RENTAL VOUCHER PROGRAM	NA	3,319,997
14.856 LOWER INCOME HOUSING ASSISTANCE PROGRAM-SECTION 8 MODERATE REHABILITATION	NA	1,802,502
14.857 SECTION 8 RENTAL CERTIFICATE PROGRAM	NA	5,392,089
<u>U.S. APPALACHIAN REGIONAL COMMISSION</u>		
PASSED THROUGH FROM DEPARTMENT FOR LOCAL GOVERNMENT:		
23.005 APPALACHIAN HOUSING PROJECT PLANNING LOAN, TECHNICAL ASSISTANCE GRANT AND SITE DEVELOPMENT AND OFF-SITE IMPROVEMENT GRANT: STATE APPALACHIAN HOUSING PROGRAMS (NOTE 3d)	78-140	693,840
SEE ACCOMPANYING NOTES TO SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE.		

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<u>KENTUCKY HOUSING CORPORATION (CONTINUED)</u>		
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u> DIRECT PROGRAM:		
93.992 ALCOHOL AND DRUG ABUSE AND MENTAL HEALTH SERVICES BLOCK GRANT (NOTE 16)	NA	
SUBTOTAL KENTUCKY HOUSING CORPORATION		93,976,005
<u>KENTUCKY COMMISSION ON HUMAN RIGHTS</u>		
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u> DIRECT PROGRAMS:		
14.401 FAIR HOUSING ASSISTANCE PROGRAM-STATE AND LOCAL	NA	17,089
14.408 FAIR HOUSING INITIATIVES PROGRAM (FHIP) ADMINISTRATIVE ENFORCEMENT INITIATIVE (NOTE 17)	NA	61,626
PASSED THROUGH FROM DEPARTMENT FOR LOCAL GOVERNMENT:		
14.228 COMMUNITY DEVELOPMENT BLOCK GRANTS/STATE'S PROGRAM (NOTE 2) (NOTE 16)	NA	
<u>U.S. EQUAL EMPLOYMENT OPPORTUNITY COMMISSION</u> DIRECT PROGRAM:		
30.002 EMPLOYMENT DISCRIMINATION-STATE AND LOCAL FAIR EMPLOYMENT PRACTICES AGENCY CONTRACTS (NOTE 17)	NA	6,493
SUBTOTAL KENTUCKY COMMISSION ON HUMAN RIGHTS		85,208

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<u>KENTUCKY INFRASTRUCTURE AUTHORITY</u>		
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>		
DIRECT PROGRAM:		
66.458 CAPITALIZATION GRANTS FOR STATE REVOLVING FUNDS (NOTE 2) (NOTE 3g)	NA	33,734,563
SUBTOTAL KENTUCKY INFRASTRUCTURE AUTHORITY		33,734,563
<u>JUSTICE CABINET - DIVISION OF GRANTS MANAGEMENT</u>		
<u>U.S. DEPARTMENT OF JUSTICE</u>		
DIRECT PROGRAMS:		
16.540 JUVENILE JUSTICE AND DELINQUENCY PREVENTION - ALLOCATION TO STATES	NA	447,116
16.575 CRIME VICTIM ASSISTANCE	NA	794,026
16.579 DRUG CONTROL AND SYSTEM IMPROVEMENT- FORMULA GRANT	NA	2,896,494
16.588 VIOLENCE AGAINST WOMEN FORMULA GRANTS	NA	58,888
16.710 PUBLIC SAFETY PARTNERSHIP AND COMMUNITY POLICING GRANTS	NA	6,321
SUBTOTAL JUSTICE CABINET - DIVISION OF GRANTS MANAGEMENT		4,202,845
<u>LABOR CABINET</u>		
<u>U.S. DEPARTMENT OF LABOR</u>		
DIRECT PROGRAMS:		
17.005 COMPENSATION AND WORKING CONDITIONS DATA	NA	118,370
17.500 OCCUPATIONAL SAFETY AND HEALTH	NA	2,579,419
17.504 OCCUPATIONAL SAFETY AND HEALTH DATA COLLECTIONS (NOTE 15)	NA	11,363

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<u>LABOR CABINET (CONTINUED)</u>		
<u>U.S. DEPARTMENT OF EDUCATION</u>		
PASSED THROUGH FROM WORKFORCE DEVELOPMENT CABINET:		
84.199 VOCATIONAL EDUCATION-COOPERATIVE DEMONSTRATION	NA	44,689
SUBTOTAL LABOR CABINET		2,753,841
<u>DEPARTMENT FOR LIBRARIES AND ARCHIVES</u>		
<u>U.S. DEPARTMENT OF EDUCATION</u>		
DIRECT PROGRAMS:		
84.034 PUBLIC LIBRARY SERVICE	NA	1,346,261
84.035 INTERLIBRARY COOPERATION AND RESOURCE SHARING	NA	352,415
84.154 PUBLIC LIBRARY CONSTRUCTION AND TECHNOLOGY ENHANCEMENT	NA	552,382
SUBTOTAL DEPARTMENT FOR LIBRARIES AND ARCHIVES		2,251,058
<u>DEPARTMENT FOR LOCAL GOVERNMENT</u>		
<u>U.S. DEPARTMENT OF COMMERCE</u>		
DIRECT PROGRAMS:		
11.305 ECONOMIC DEVELOPMENT - STATE AND LOCAL ECONOMIC DEVELOPMENT PLANNING	NA	291,500
11.307 SPECIAL ECONOMIC DEVELOPMENT AND ADJUSTMENT ASSISTANCE PROGRAM - SUDDEN AND SEVERE ECONOMIC DISLOCATION AND LONG TERM ECONOMIC DETERIORATION (NOTE 3e)	NA	7,140

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<u>DEPARTMENT FOR LOCAL GOVERNMENT (CONTINUED)</u>		
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>		
DIRECT PROGRAMS:		
14.227 COMMUNITY DEVELOPMENT BLOCK GRANTS/SPECIAL PURPOSE GRANTS/TECHNICAL ASSISTANCE PROGRAM (NOTE 16)	NA	
14.228 COMMUNITY DEVELOPMENT BLOCK GRANTS/STATE'S PROGRAM (NOTE 2) (NOTE 11)	NA	27,775,494
14.230 RENTAL HOUSING REHABILITATION (NOTE 10)	NA	
14.231 EMERGENCY SHELTER GRANTS PROGRAM (NOTE 16)	NA	
<u>U.S. DEPARTMENT OF THE INTERIOR</u>		
DIRECT PROGRAM:		
15.916 OUTDOOR RECREATION - ACQUISITION, DEVELOPMENT AND PLANNING (NOTE 8)	NA	457,467
<u>U.S. DEPARTMENT OF JUSTICE</u>		
PASSED THROUGH FROM JUSTICE CABINET - DIVISION OF GRANTS MANAGEMENT:		
16.579 DRUG CONTROL AND SYSTEM IMPROVEMENT - FORMULA GRANT	95-DB-CX-0021	204,000
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>		
DIRECT PROGRAM:		
20.205 HIGHWAY PLANNING AND CONSTRUCTION (NOTE 2)	NA	28,145
<u>U.S. APPALACHIAN REGIONAL COMMISSION</u>		
DIRECT PROGRAMS:		
23.001 APPALACHIAN REGIONAL DEVELOPMENT (NOTE 3b)	NA	175,000
23.002 APPALACHIAN SUPPLEMENTS TO FEDERAL GRANT-IN-AID (AREA DEVELOPMENT)	NA	789,696

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<u>DEPARTMENT FOR LOCAL GOVERNMENT (CONTINUED)</u>		
<u>U.S. APPALACHIAN REGIONAL COMMISSION (CONTINUED)</u> DIRECT PROGRAMS (CONTINUED):		
23.005 APPALACHIAN HOUSING PROJECT PLANNING LOAN, TECHNICAL ASSISTANCE GRANT AND SITE DEVELOPMENT AND OFF-SITE IMPROVEMENT GRANT: STATE APPALACHIAN HOUSING PROGRAM (NOTE 16)	NA	
23.011 APPALACHIAN STATE RESEARCH, TECHNICAL ASSISTANCE, AND DEMONSTRATION PROJECT	NA	83,745
<u>OTHER FEDERAL ASSISTANCE</u> DIRECT PROGRAM:		
NA JOINT FUNDING ADMINISTRATION (NOTE 9)	NA	<u>1,566,000</u>
SUBTOTAL DEPARTMENT FOR LOCAL GOVERNMENT		<u>31,378,187</u>
<u>DEPARTMENT OF MILITARY AFFAIRS</u>		
<u>U.S. DEPARTMENT OF COMMERCE</u> DIRECT PROGRAM:		
11.450 INTEGRATED FLOOD OBSERVING AND WARNING SYSTEM (INFLOWS)	NA	47,927
<u>U.S. DEPARTMENT OF TRANSPORTATION</u> DIRECT PROGRAM:		
20.703 INTERAGENCY HAZARDOUS MATERIALS PUBLIC SECTOR TRAINING AND PLANNING GRANTS	NA	120,280

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STATE AGENCY FEDERAL GRANTOR CFDA #/ PROGRAM TITLE	PASS-THROUGH GRANTOR'S #	EXPENDITURES
<u>DEPARTMENT OF MILITARY AFFAIRS (CONTINUED)</u>		
<u>U.S. FEDERAL EMERGENCY MANAGEMENT AGENCY</u> DIRECT PROGRAMS:		
83.011 HAZARDOUS MATERIALS TRAINING PROGRAM FOR IMPLEMENTATION OF THE SUPERFUND AMENDMENT AND REAUTHORIZATION ACT (SARA) OF 1986	NA	61,948
83.105 COMMUNITY ASSISTANCE PROGRAM-STATE SUPPORT SERVICES ELEMENT (NOTE 16)	NA	
83.505 STATE DISASTER PREPAREDNESS GRANTS	NA	50,749
83.516 DISASTER ASSISTANCE (NOTE 2)	NA	9,454,451
83.521 EARTHQUAKE HAZARDS REDUCTION GRANTS	NA	89,071
83.534 EMERGENCY MANAGEMENT - STATE AND LOCAL ASSISTANCE	NA	1,674,475
NA CHEMICAL STOCKPILE EMERGENCY PREPAREDNESS PROGRAM	NA	6,611,118
SUBTOTAL DEPARTMENT OF MILITARY AFFAIRS		18,110,019
<u>DEPARTMENT OF MINES AND MINERALS</u>		
<u>U.S. DEPARTMENT OF LABOR</u> DIRECT PROGRAM:		
17.600 MINE HEALTH AND SAFETY GRANTS	NA	570,479
<u>U.S. DEPARTMENT OF ENERGY</u> DIRECT PROGRAM:		
81.089 FOSSIL ENERGY RESEARCH AND DEVELOPMENT	NA	582,096
SUBTOTAL DEPARTMENT OF MINES AND MINERALS		1,152,575

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<u>NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET</u>		
<u>U.S. DEPARTMENT OF AGRICULTURE</u>		
DIRECT PROGRAMS:		
10.063 AGRICULTURAL CONSERVATION PROGRAM	NA	3,868
10.064 FORESTRY INCENTIVES PROGRAM	NA	1,127
10.069 CONSERVATION RESERVE PROGRAM	NA	15,000
10.664 COOPERATIVE FORESTRY ASSISTANCE	NA	1,501,382
10.901 RESOURCE CONSERVATION AND DEVELOPMENT	NA	18,537
<u>U.S. DEPARTMENT OF DEFENSE</u>		
DIRECT PROGRAM:		
12.113 STATE MEMORANDUM OF AGREEMENT PROGRAM FOR THE REIMBURSEMENT OF TECHNICAL SERVICES	NA	229,802
<u>U.S. DEPARTMENT OF THE INTERIOR</u>		
DIRECT PROGRAMS:		
15.250 REGULATION OF SURFACE COAL MINING AND SURFACE EFFECTS OF UNDERGROUND COAL MINING (NOTE 2)	NA	13,134,507
15.252 ABANDONED MINE LAND RECLAMATION (AMLR) PROGRAM (NOTE 2)	NA	10,632,717
15.615 COOPERATIVE ENDANGERED SPECIES CONSERVATION FUND	NA	30,710
NA NATIONAL BIOLOGICAL SERVICE	NA	34,949
PASSED THROUGH FROM DEPARTMENT OF FISH AND WILDLIFE RESOURCES:		
15.616 CLEAN VESSEL ACT	NA	380

SEE ACCOMPANYING NOTES TO SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE.

COMMONWEALTH OF KENTUCKY
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE - BY STATE AGENCY
CASH ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1996
(CONTINUED)

STATE AGENCY FEDERAL GRANTOR CFDA #/ PROGRAM TITLE	PASS-THROUGH GRANTOR'S #	EXPENDITURES
<u>NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET (CONTINUED)</u>		
<u>U.S. SMALL BUSINESS ADMINISTRATION</u>		
DIRECT PROGRAM:		
59.045 NATURAL RESOURCE DEVELOPMENT	NA	67,619
<u>U.S. TENNESSEE VALLEY AUTHORITY</u>		
DIRECT PROGRAM:		
62.001 TVA ENVIRONMENTAL RESEARCH CENTER	NA	22,058
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>		
DIRECT PROGRAMS:		
66.001 AIR POLLUTION CONTROL PROGRAM SUPPORT	NA	1,430,482
66.419 WATER POLLUTION CONTROL - STATE AND INTERSTATE PROGRAM SUPPORT	NA	1,364,394
66.432 STATE PUBLIC WATER SYSTEM SUPERVISION	NA	812,567
66.435 WATER POLLUTION CONTROL - LAKE RESTORATION COOPERATIVE AGREEMENTS	NA	15,776
66.438 CONSTRUCTION MANAGEMENT ASSISTANCE	NA	414,941
66.454 WATER QUALITY MANAGEMENT PLANNING	NA	213,478
66.460 NONPOINT SOURCE IMPLEMENTATION GRANTS	NA	889,993
66.461 WETLANDS PROTECTION - STATE AND TRIBAL DEVELOPMENT GRANTS	NA	29,354
66.463 NATIONAL POLLUTANT DISCHARGE ELIMINATION SYSTEM RELATED STATE PROGRAM GRANTS	NA	162,280
66.701 TOXIC SUBSTANCES COMPLIANCE MONITORING COOPERATIVE AGREEMENTS	NA	174,964
66.708 POLLUTION PREVENTION GRANTS PROGRAM	NA	118,534
66.801 HAZARDOUS WASTE MANAGEMENT STATE PROGRAM SUPPORT	NA	1,457,266
66.802 SUPERFUND STATE SITE - SPECIFIC COOPERATIVE AGREEMENTS	NA	242,161
66.804 STATE UNDERGROUND STORAGE TANKS PROGRAM	NA	186,675
66.805 LEAKING UNDERGROUND STORAGE TANK TRUST FUND PROGRAM	NA	1,092,382
66.809 SUPERFUND STATE CORE PROGRAM COOPERATIVE AGREEMENTS	NA	200,930
NA SURVEYS, STUDIES, INVESTIGATIONS	NA	130,017

SEE ACCOMPANYING NOTES TO SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE.

COMMONWEALTH OF KENTUCKY
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE - BY STATE AGENCY
CASH ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1996
(CONTINUED)

STATE AGENCY FEDERAL GRANTOR CFDA #/ PROGRAM TITLE	PASS-THROUGH GRANTOR'S #	EXPENDITURES
<u>NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET (CONTINUED)</u>		
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY (CONTINUED)</u> DIRECT PROGRAMS: (CONTINUED)		
NA WATER POLLUTION CONTROL - STATE AND LOCAL MANPOWER PROGRAM DEVELOPMENT	NA	44,697
PASSED THROUGH FROM KENTUCKY INFRASTRUCTURE AUTHORITY:		
66.458 CAPITALIZATION GRANTS FOR STATE REVOLVING FUNDS (NOTE 2)	NA	746,162
<u>U.S. DEPARTMENT OF ENERGY</u> DIRECT PROGRAMS:		
81.039 NATIONAL ENERGY INFORMATION CENTER	NA	5,239
81.041 STATE ENERGY CONSERVATION	NA	557,950
81.050 ENERGY EXTENSION SERVICE	NA	60,909
81.052 ENERGY CONSERVATION FOR INSTITUTIONAL BUILDINGS	NA	75,202
81.092 ENVIRONMENTAL RESTORATION	NA	21,541
81.502 PADUCAH GASEOUS DIFFUSION PLANT ENVIRONMENTAL MONITORING AND OVERSIGHT (NOTE 15)	NA	1,387,978
<u>U.S. FEDERAL EMERGENCY MANAGEMENT AGENCY</u> DIRECT PROGRAMS:		
83.100 FLOOD INSURANCE	NA	14,567
83.105 COMMUNITY ASSISTANCE PROGRAM - STATE SUPPORT SERVICES ELEMENT	NA	56,975
TOTAL NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET		37,600,070

SEE ACCOMPANYING NOTES TO SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE.

COMMONWEALTH OF KENTUCKY
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE - BY STATE AGENCY
CASH ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1996
(CONTINUED)

STATE AGENCY FEDERAL GRANTOR CFDA #/ PROGRAM TITLE	PASS-THROUGH GRANTOR'S #	EXPENDITURES
<u>DEPARTMENT OF PARKS</u>		
<u>U.S. DEPARTMENT OF COMMERCE</u> DIRECT PROGRAM:		
NA ECONOMIC DEVELOPMENT ACT OF 1965 (NOTE 16)	NA	
<u>U.S. NATIONAL FOUNDATION ON THE ARTS AND THE HUMANITIES</u> DIRECT PROGRAM:		
45.301 INSTITUTE OF MUSEUM SERVICES	NA	33,335
<u>U.S. FEDERAL EMERGENCY MANAGEMENT AGENCY</u>		
PASSED THROUGH FROM DEPARTMENT OF MILITARY AFFAIRS:		
83.516 DISASTER ASSISTANCE (NOTE 2)	F1018-DR	70,332
SUBTOTAL DEPARTMENT OF PARKS		103,667
<u>DEPARTMENT OF PUBLIC ADVOCACY</u>		
<u>U.S. DEPARTMENT OF JUSTICE</u>		
PASSED THROUGH FROM JUSTICE CABINET -DIVISION OF GRANTS MANAGEMENT:		
16.579 DRUG CONTROL AND SYSTEM IMPROVEMENT - FORMULA GRANT	NA	6,088

SEE ACCOMPANYING NOTES TO SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE.

COMMONWEALTH OF KENTUCKY
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE - BY STATE AGENCY
CASH ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1996
(CONTINUED)

STATE AGENCY FEDERAL GRANTOR CFDA #/ PROGRAM TITLE	PASS-THROUGH GRANTOR'S #	EXPENDITURES
<u>DEPARTMENT OF PUBLIC ADVOCACY (CONTINUED)</u>		
<u>U.S. DEPARTMENT OF EDUCATION</u>		
DIRECT PROGRAM:		
84.240 PROGRAM OF PROTECTION AND ADVOCACY OF INDIVIDUAL RIGHTS	NA	109,608
PASSED THROUGH FROM WORKFORCE DEVELOPMENT CABINET-DEPARTMENT FOR THE BLIND:		
84.224 STATE GRANTS FOR ASSISTIVE TECHNOLOGY	NA	79,843
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>		
DIRECT PROGRAMS:		
93.138 PROTECTION AND ADVOCACY FOR INDIVIDUALS WITH MENTAL ILLNESS	NA	291,299
93.630 DEVELOPMENTAL DISABILITIES BASIC SUPPORT AND ADVOCACY GRANTS	NA	356,234
SUBTOTAL DEPARTMENT OF PUBLIC ADVOCACY		843,072
<u>PUBLIC SERVICE COMMISSION</u>		
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>		
DIRECT PROGRAM:		
20.700 PIPELINE SAFETY	NA	233,482
SUBTOTAL PUBLIC SERVICE COMMISSION		233,482

SEE ACCOMPANYING NOTES TO SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE.

COMMONWEALTH OF KENTUCKY
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE - BY STATE AGENCY
CASH ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1996
(CONTINUED)

STATE AGENCY FEDERAL GRANTOR CFDA #/ PROGRAM TITLE	PASS-THROUGH GRANTOR'S #	EXPENDITURES
<u>REVENUE CABINET</u>		
<u>U.S. DEPARTMENT OF TRANSPORTATION</u> DIRECT PROGRAM:		
NA JOINT FEDERAL/STATE MOTOR FUEL TAX COMPLIANCE PROJECT	NA	<u>50,000</u>
SUBTOTAL REVENUE CABINET		<u>50,000</u>
<u>DEPARTMENT OF STATE POLICE</u>		
<u>U.S. DEPARTMENT OF AGRICULTURE</u> DIRECT PROGRAM:		
NA FORESTRY MARIJUANA SUPPRESSION	NA	23,616
<u>U.S. DEPARTMENT OF JUSTICE</u> DIRECT PROGRAM:		
NA CRIMINAL JUSTICE DISCRETIONARY GRANT PROGRAM	NA	581,097
PASSED THROUGH FROM JUSTICE CABINET- DIVISION OF GRANTS MANAGEMENT:		
16.579 DRUG CONTROL AND SYSTEM IMPROVEMENT - FORMULA GRANT	NA	1,667,176
<u>U.S. DEPARTMENT OF TRANSPORTATION</u> DIRECT PROGRAM:		
20.600 STATE AND COMMUNITY HIGHWAY SAFETY	NA	2,406,849

SEE ACCOMPANYING NOTES TO SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE.

COMMONWEALTH OF KENTUCKY
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE - BY STATE AGENCY
CASH ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1996
(CONTINUED)

STATE AGENCY FEDERAL GRANTOR CFDA #/ PROGRAM TITLE	PASS-THROUGH GRANTOR'S #	EXPENDITURES
<u>DEPARTMENT OF STATE POLICE (CONTINUED)</u>		
<u>U.S. DEPARTMENT OF EDUCATION</u>		
PASSED THROUGH FROM CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12):		
84.186 SAFE AND DRUG-FREE SCHOOLS-STATE GRANTS	NA	43,952
SUBTOTAL DEPARTMENT OF STATE POLICE		4,722,690
<u>TOURISM DEVELOPMENT CABINET</u>		
<u>U.S. DEPARTMENT OF COMMERCE</u>		
DIRECT PROGRAM:		
11.305 ECONOMIC DEVELOPMENT-STATE AND LOCAL ECONOMIC DEVELOPMENT PLANNING	NA	68,410
SUBTOTAL TOURISM DEVELOPMENT CABINET		68,410
<u>TRANSPORTATION CABINET</u>		
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>		
DIRECT PROGRAMS:		
20.106 AIRPORT IMPROVEMENT PROGRAM	NA	156,119
20.205 HIGHWAY PLANNING AND CONSTRUCTION (NOTE 2) (NOTE 6)	NA	257,845,169
20.218 MOTOR CARRIER SAFETY ASSISTANCE PROGRAM	NA	1,890,931
20.308 LOCAL RAIL FREIGHT ASSISTANCE	NA	121,889
20.505 FEDERAL TRANSIT TECHNICAL STUDIES GRANTS	NA	345,079
20.509 PUBLIC TRANSPORTATION FOR NONURBANIZED AREAS	NA	3,742,655
20.513 CAPITAL ASSISTANCE PROGRAM FOR ELDERLY PERSONS AND PERSONS WITH DISABILITIES	NA	923,258

SEE ACCOMPANYING NOTES TO SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE.

COMMONWEALTH OF KENTUCKY
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE - BY STATE AGENCY
CASH ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1996
(CONTINUED)

STATE AGENCY FEDERAL GRANTOR CFDA #/ PROGRAM TITLE	PASS-THROUGH GRANTOR'S #	EXPENDITURES
<u>TRANSPORTATION CABINET (CONTINUED)</u>		
<u>U.S. DEPARTMENT OF TRANSPORTATION (CONTINUED)</u>		
PASSED THROUGH FROM DEPARTMENT OF STATE POLICE:		
20.600 STATE AND COMMUNITY HIGHWAY SAFETY	93-15-09-01 FIS-95-05,03 FSM-95-07 FIS-96-02	39,398
<u>U.S. DEPARTMENT OF ENERGY</u>		
PASSED THROUGH FROM NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET:		
81.041 STATE ENERGY CONSERVATION	MA16015	2,800
<u>U.S. FEDERAL EMERGENCY MANAGEMENT AGENCY</u>		
PASSED THROUGH FROM DEPARTMENT OF MILITARY AFFAIRS:		
83.516 DISASTER ASSISTANCE (NOTE 2)	FEMA-1018-DR-KY FEMA-1089-DR-KY FEMA-846-PA-92003	1,185,000
SUBTOTAL TRANSPORTATION CABINET		<u>266,252,298</u>

SEE ACCOMPANYING NOTES TO SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE.

COMMONWEALTH OF KENTUCKY
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE - BY STATE AGENCY
CASH ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1996
(CONTINUED)

STATE AGENCY FEDERAL GRANTOR CFDA #/ PROGRAM TITLE	PASS-THROUGH GRANTOR'S #	EXPENDITURES
<u>DEPARTMENT OF TRAVEL DEVELOPMENT</u>		
<u>U.S. APPALACHIAN REGIONAL COMMISSION</u> DIRECT PROGRAM:		
NA REGIONAL TOURISM INITIATIVE	NA	<u>22,267</u>
SUBTOTAL DEPARTMENT OF TRAVEL DEVELOPMENT		<u>22,267</u>
<u>UNIFIED PROSECUTORIAL SYSTEM</u>		
<u>U.S. DEPARTMENT OF JUSTICE</u>		
PASSED THROUGH FROM JUSTICE CABINET- DIVISION OF GRANTS MANAGEMENT:		
16.575 CRIME VICTIM ASSISTANCE	5247-VC4-8/95 5249-VC4-10/95 5266-VC4-6/95 5267-VC4-6/95 5248-VC4-8/95 5279-VC4-8/95 5278-VC4-3/95 5255-VC4-3/95 5277-VC4-3/95	246,496
<u>U.S. DEPARTMENT OF TRANSPORTATION</u> DIRECT PROGRAM:		
20.600 STATE AND COMMUNITY HIGHWAY SAFETY (NOTE 16)	NA	

SEE ACCOMPANYING NOTES TO SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE.

COMMONWEALTH OF KENTUCKY
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE - BY STATE AGENCY
CASH ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1996
(CONTINUED)

STATE AGENCY FEDERAL GRANTOR CFDA #/ PROGRAM TITLE	PASS-THROUGH GRANTOR'S #	EXPENDITURES
<u>UNIFIED PROSECUTORIAL SYSTEM (CONTINUED)</u>		
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>		
PASSED THROUGH FROM CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12):		
93.643 CHILDREN'S JUSTICE GRANTS TO STATES	SS-94-95 3176 SS-95-96-3176	24,382
SUBTOTAL UNIFIED PROSECUTORIAL SYSTEM		270,878
<u>WORKFORCE DEVELOPMENT CABINET</u>		
<u>U. S. DEPARTMENT OF AGRICULTURE</u>		
PASSED THROUGH FROM CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12):		
10.561 STATE ADMINISTRATIVE MATCHING GRANTS FOR FOOD STAMP PROGRAM (NOTE 2)	NA	1,861,689
<u>U.S. DEPARTMENT OF LABOR</u>		
DIRECT PROGRAMS:		
17.002 LABOR FORCE STATISTICS	NA	756,131
17.207 EMPLOYMENT SERVICES (NOTE 2)	NA	10,540,942
17.225 UNEMPLOYMENT INSURANCE (NOTE 2) (NOTE 7)	NA	22,196,551
17.245 TRADE ADJUSTMENT ASSISTANCE - WORKERS	NA	4,426,259
17.246 EMPLOYMENT AND TRAINING ASSISTANCE-DISLOCATED WORKERS	NA	7,791,701
17.250 JOB TRAINING PARTNERSHIP ACT (NOTE 2)	NA	31,520,497
17.801 DISABLED VETERANS' OUTREACH PROGRAM	NA	712,786
17.804 LOCAL VETERANS' EMPLOYMENT REPRESENTATIVE PROGRAM	NA	854,686

SEE ACCOMPANYING NOTES TO SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE.

COMMONWEALTH OF KENTUCKY
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE - BY STATE AGENCY
CASH ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1996
(CONTINUED)

STATE AGENCY FEDERAL GRANTOR CFDA #/ PROGRAM TITLE	PASS-THROUGH GRANTOR'S #	EXPENDITURES
<u>WORKFORCE DEVELOPMENT CABINET (CONTINUED)</u>		
<u>U.S. APPALACHIAN REGIONAL COMMISSION</u>		
DIRECT PROGRAM:		
23.012 APPALACHIAN VOCATIONAL AND OTHER EDUCATION FACILITIES AND OPERATIONS	NA	212,815
PASSED THROUGH FROM GOVERNOR'S COMMISSION ON LITERACY:		
23.001 APPALACHIAN REGIONAL DEVELOPMENT (NOTE 16)	NA	
<u>U.S. DEPARTMENT OF VETERANS AFFAIRS</u>		
DIRECT PROGRAM:		
NA VETERANS ADMINISTRATION - STATE APPROVING AGENCY	NA	162,059
<u>U.S. FEDERAL EMERGENCY MANAGEMENT AGENCY</u>		
DIRECT PROGRAMS:		
83.516 DISASTER ASSISTANCE (NOTE 2) (NOTE 16)	NA	
<u>U.S. DEPARTMENT OF EDUCATION</u>		
DIRECT PROGRAMS:		
84.002 ADULT EDUCATION - STATE GRANT PROGRAM	NA	5,637,588
84.007 FEDERAL SUPPLEMENTAL EDUCATIONAL OPPORTUNITY GRANTS	NA	174,413
84.033 FEDERAL WORK-STUDY PROGRAM	NA	194,000
84.048 VOCATIONAL EDUCATION - BASIC GRANTS TO STATES (NOTE 2)	NA	11,860,223
84.049 VOCATIONAL EDUCATION - CONSUMER AND HOMEMAKING EDUCATION	NA	81,131
84.053 VOCATIONAL EDUCATION - STATE COUNCILS	NA	139,018
84.063 FEDERAL PELL GRANT PROGRAM	NA	5,198,672
84.126 REHABILITATION SERVICES - VOCATIONAL REHABILITATION GRANTS TO STATES (NOTE 2)	NA	41,509,277
84.128 REHABILITATION SERVICES - SERVICE PROJECTS (NOTE 16)	NA	

SEE ACCOMPANYING NOTES TO SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE.

COMMONWEALTH OF KENTUCKY
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE - BY STATE AGENCY
CASH ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1996
(CONTINUED)

STATE AGENCY FEDERAL GRANTOR CFDA #/ PROGRAM TITLE	PASS-THROUGH GRANTOR'S #	EXPENDITURES
<u>WORKFORCE DEVELOPMENT CABINET (CONTINUED)</u>		
<u>U.S. DEPARTMENT OF EDUCATION (CONTINUED)</u>		
DIRECT PROGRAMS: (CONTINUED)		
84.161 REHABILITATION SERVICES - CLIENT ASSISTANCE PROGRAM	NA	124,475
84.169 INDEPENDENT LIVING - STATE GRANTS	NA	357,385
84.174 VOCATIONAL EDUCATION - COMMUNITY BASED ORGANIZATIONS	NA	48,587
84.177 REHABILITATION SERVICE - INDEPENDENT LIVING SERVICES FOR OLDER INDIVIDUALS WHO ARE BLIND	NA	233,445
84.187 SUPPORTED EMPLOYMENT SERVICES FOR INDIVIDUALS WITH SEVERE DISABILITIES	NA	523,793
84.192 ADULT EDUCATION - LITERACY TRAINING FOR HOMELESS ADULTS	NA	266,776
84.198 WORKPLACE LITERACY PARTNERSHIP	NA	10,417
84.224 STATE GRANTS PROGRAM FOR ASSISTIVE TECHNOLOGY	NA	691,313
84.243 TECH-PREP EDUCATION	NA	1,995,186
84.253 SUPPLEMENTARY STATE GRANTS FOR FACILITIES, EQUIPMENT, AND OTHER PROGRAM IMPROVEMENT ACTIVITIES (NOTE 16)	NA	
84.254 STATE LITERACY RESOURCE CENTERS	NA	88,086
84.257 NATIONAL INSTITUTE FOR LITERACY	NA	218,996
84.265 REHABILITATION TRAINING - STATE VOCATIONAL REHABILITATION UNIT IN-SERVICE TRAINING	NA	116,959
84.278 SCHOOL - TO -WORK IMPLEMENTATION GRANT (NOTE 15)	NA	6,367,772
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>		
DIRECT PROGRAMS:		
93.044 SPECIAL PROGRAMS FOR THE AGING - TITLE III, PART B-GRANTS FOR SUPPORTIVE SERVICES AND SENIOR CENTERS	NA	155,287
93.563 CHILD SUPPORT ENFORCEMENT (NOTE 2)	NA	115

SEE ACCOMPANYING NOTES TO SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE.

COMMONWEALTH OF KENTUCKY
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE - BY STATE AGENCY
CASH ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1996
(CONTINUED)

STATE AGENCY FEDERAL GRANTOR CFDA #/ PROGRAM TITLE	PASS-THROUGH GRANTOR'S #	EXPENDITURES
<u>WORKFORCE DEVELOPMENT CABINET (CONTINUED)</u>		
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (CONTINUED)</u>		
PASSED THROUGH FROM CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12):		
93.561 JOB OPPORTUNITIES AND BASIC SKILLS TRAINING (NOTE 2)	NA	4,599,889
93.630 DEVELOPMENT DISABILITIES BASIC SUPPORT AND ADVOCACY GRANTS	NA	8,081
93.667 SOCIAL SERVICES BLOCK GRANT (NOTE 2) (NOTE 16)	NA	
93.778 MEDICAL ASSISTANCE PROGRAM (NOTE 2) (NOTE 16)	NA	
93.958 BLOCK GRANT FOR COMMUNITY MENTAL HEALTH SERVICES	NA	40,250
<u>U.S. NATIONAL OCCUPATIONAL INFORMATION COORDINATING COMMITTEE</u> DIRECT PROGRAM:		
NA NATIONAL OCCUPATIONAL INFORMATION COORDINATING COMMITTEE	NA	141,738
SUBTOTAL WORKFORCE DEVELOPMENT CABINET		161,818,988
TOTAL FEDERAL FINANCIAL ASSISTANCE EXPENDED - CASH ASSISTANCE PROGRAMS		\$ 3,065,603,940

SEE ACCOMPANYING NOTES TO SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE.

COMMONWEALTH OF KENTUCKY
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE - BY STATE AGENCY
NONCASH ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1996

STATE AGENCY

FEDERAL GRANTOR

CFDA #/ PROGRAM TITLE

EXPENDITURES

METHOD/BASIS OF VALUATION

DEPARTMENT OF AGRICULTURE

U.S. DEPARTMENT OF AGRICULTURE

DIRECT PROGRAMS:

10.550 FOOD DISTRIBUTION (NOTE 2) (NOTE 5)

\$ 13,410,104

USDA'S VALUE AT THE TIME OF DELIVERY TO RECIPIENT AGENCIES.

10.565 COMMODITY SUPPLEMENTAL FOOD PROGRAM (NOTE 5)

1,330,311

QUANTITY ISSUED TO RECIPIENTS, DAMAGED, OR USED FOR DEMONSTRATION, VALUED AT USDA'S MAY 1996 PRICES.

SUBTOTAL DEPARTMENT OF AGRICULTURE

14,740,415

COMMONWEALTH SMALL BUSINESS DEVELOPMENT CORPORATION

U.S. SMALL BUSINESS ADMINISTRATION

DIRECT PROGRAM:

59.041 CERTIFIED DEVELOPMENT COMPANY LOANS (504 LOANS) (NOTE 2)

(NOTE 3c)

SUBTOTAL COMMONWEALTH SMALL BUSINESS DEVELOPMENT CORPORATION

0

DEPARTMENT OF CORRECTIONS

U.S. DEPARTMENT OF AGRICULTURE

PASSED THROUGH FROM DEPARTMENT OF AGRICULTURE:

10.550 FOOD DISTRIBUTION (NOTE 2) (NOTE 5)

120,840

VALUE OF PRODUCT RECEIVED FROM USDA OFFICE.

SUBTOTAL DEPARTMENT OF CORRECTIONS

120,840

SEE ACCOMPANYING NOTES TO SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE.

COMMONWEALTH OF KENTUCKY
SCHEDULE OF FEDERAL ASSISTANCE - BY STATE AGENCY
NONCASH ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1996
(CONTINUED)

STATE AGENCY
FEDERAL GRANTOR
CFDA #/ PROGRAM TITLE

EXPENDITURES

METHOD/BASIS OF VALUATION

CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)

U.S. DEPARTMENT OF AGRICULTURE
DIRECT PROGRAMS:

10.551 FOOD STAMPS (NOTE 2) (NOTE 4)	417,255,481	COUPON VALUE.
10.569 EMERGENCY FOOD ASSISTANCE PROGRAM (FOOD COMMODITIES) (NOTE 4)	745,165	DOLLAR VALUE PER POUND AS OF DATE OF DISTRIBUTION AS LISTED IN THE FEDERAL PRICE FILE PROVIDED TO STATES BY USDA.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES
DIRECT PROGRAMS:

93.116 PROJECT GRANTS AND COOPERATIVE AGREEMENTS FOR TUBERCULOSIS CONTROL PROGRAMS	33,523	PER AUTHORIZED AWARD FOR PERSONNEL COSTS AND TRAVEL.
93.268 CHILDHOOD IMMUNIZATION GRANTS (NOTE 4)	2,063,221	PER AUTHORIZED AWARD FOR VACCINE AND PERSONNEL COSTS.
93.940 HIV PREVENTION ACTIVITIES-HEALTH DEPARTMENT BASED	41,641	PER AUTHORIZED AWARD FOR OTHER COSTS AND PERSONNEL COSTS.
93.977 PREVENTIVE HEALTH SERVICES-SEXUALLY TRANSMITTED DISEASES CONTROL GRANTS	76,120	PER AUTHORIZED AWARD FOR PERSONNEL COSTS AND TRAVEL.
93.988 COOPERATIVE AGREEMENTS FOR STATE-BASED DIABETES CONTROL PROGRAMS AND EVALUATION OF SURVEILLANCE SYSTEMS	5,000	PER AUTHORIZED AWARD FOR TRAVEL.
SUBTOTAL CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (NOTE 12)	420,220,151	

SEE ACCOMPANYING NOTES TO SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE.

COMMONWEALTH OF KENTUCKY
SCHEDULE OF FEDERAL ASSISTANCE - BY STATE AGENCY
NONCASH ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1996
(CONTINUED)

STATE AGENCY
FEDERAL GRANTOR
CFDA #/ PROGRAM TITLE

EXPENDITURES

METHOD/BASIS OF VALUATION

FINANCE AND ADMINISTRATION CABINET

U.S. GENERAL SERVICES ADMINISTRATION
DIRECT PROGRAM:

39.003 DONATION OF FEDERAL SURPLUS PERSONAL PROPERTY	3,470,109	23.3% OF FEDERAL ACQUISITION COST.
SUBTOTAL FINANCE AND ADMINISTRATION CABINET	3,470,109	

KENTUCKY HOUSING CORPORATION

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
DIRECT PROGRAM:

NA FHA/VA INSURED LOANS (NOTE 2)	(NOTE 3h)
SUBTOTAL KENTUCKY HOUSING CORPORATION	0

NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET

U.S. DEPARTMENT OF AGRICULTURE
DIRECT PROGRAMS:

10.664 COOPERATIVE FORESTRY ASSISTANCE	2,896,387	ORIGINAL FEDERAL ACQUISITION COST OF SURPLUS FIRE FIGHTING VEHICLES AND EQUIPMENT.
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SEE ACCOMPANYING NOTES TO SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE.

COMMONWEALTH OF KENTUCKY
SCHEDULE OF FEDERAL ASSISTANCE - BY STATE AGENCY
NONCASH ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1996
(CONTINUED)

STATE AGENCY
FEDERAL GRANTOR
CFDA #/ PROGRAM TITLE

EXPENDITURES

METHOD/BASIS OF VALUATION

NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET (CONTINUED)

U.S. DEPARTMENT OF AGRICULTURE (CONTINUED)
DIRECT PROGRAMS: (CONTINUED)

NA MEMORANDUM OF AGREEMENT NO. 68-5C16-5-019

27,575

SOIL CONSERVATION SERVICE ASSISTS STATE IN
PAYING THE AMOUNT OF SALARY IN EXCESS
OF \$24,000.

SUBTOTAL NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION
CABINET

2,923,962

TOTAL FEDERAL FINANCIAL ASSISTANCE EXPENDED -
NONCASH ASSISTANCE PROGRAMS

\$ 441,475,477

SEE ACCOMPANYING NOTES TO SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE.

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE
JUNE 30, 1996

Note 1 - Purpose of the Schedules and Significant Accounting Policies

Purpose of the Schedules - OMB Circular A-128, Audits of State and Local Governments, requires a schedule of federal financial assistance showing each federal financial assistance program as identified in the Catalog of Federal Domestic Assistance.

Basis of Presentation - The accompanying schedules of federal financial assistance are presented in accordance with OMB Circular A-128. As defined in that Circular, federal financial assistance “. . . means assistance provided by a Federal agency in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance, or direct appropriations, but does not include direct Federal cash assistance to individuals. It includes awards received directly from Federal agencies, or indirectly through other units of State and local governments.” Accordingly, the accompanying schedules include both cash and noncash federal financial assistance programs. Those programs which have not been assigned a catalog number, or for which the catalog number was not available, have been shown either at the bottom of the relevant federal grantor subheading or under the Other Federal Assistance subheading.

Reporting Entity -. The accompanying schedules include all federal financial assistance programs administered by the Commonwealth of Kentucky except for those programs administered by the state universities. As allowed by the Single Audit Act of 1984 and Section 6c of OMB A-128, the Commonwealth elected to exclude state universities from the statewide single audit, except as part of the audit of the Commonwealth's general-purpose financial statements.

Basis of Accounting - The accompanying schedules of federal financial assistance - cash assistance programs are presented primarily on the basis of cash disbursements as modified by the application of KRS 45.229. Consequently, certain expenditures are recorded in the accounts only when cash is disbursed.

KRS 45.229 provides that the Finance and Administration Cabinet may, “. . . for a period of thirty (30) days after the close of any fiscal year, draw warrants against the available balances of appropriations made for that fiscal year, for the payment of expenditures incurred during that year or in fulfillment of contracts properly made during the year, but for no other purpose.” However, there is an exception to the application of KRS 45.229 in that regular payroll expenses incurred during the last pay period of the fiscal year are charged to the next year.

COMMONWEALTH OF KENTUCKY

NOTES TO THE SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE

JUNE 30, 1996

(Continued)

Note 1 - Purpose of the Schedules and Significant Accounting Policies (Continued)

The schedules for seven state agencies which account for 93 percent of the total federal financial assistance - cash assistance programs are presented on the modified cash basis of accounting as explained above:

Department of Education

Cabinet for Families and Children and Cabinet for Health Services

Department for Local Government

Department of Military Affairs

Natural Resources and Environmental Protection Cabinet

Transportation Cabinet

Workforce Development Cabinet

In addition, the Kentucky Housing Corporation which accounts for 3 percent of the total federal financial assistance - cash assistance programs is presented on the accrual basis of accounting. The remaining state agencies' schedules of federal financial assistance - cash assistance programs are presented on the cash, modified cash, or accrual basis of accounting.

The Commonwealth's general-purpose financial statements are presented on the accrual/modified accrual basis of accounting. Therefore, the schedules of federal financial assistance - cash assistance programs may not be directly traceable to the general-purpose financial statements in all cases.

The accompanying schedules of federal financial assistance - noncash assistance programs present the noncash assistance expended by the Commonwealth of Kentucky during the period July 1, 1995, through June 30, 1996, using the method or basis of valuation as described in the schedules for each program. For fiscal year 1996, the Commonwealth of Kentucky implemented GASB Statement #24, which required Food Stamps to be recorded in the Commonwealth's general-purpose financial statements. The remaining noncash assistance programs are not reported in the Commonwealth's general-purpose financial statements for the year ended June 30, 1996.

COMMONWEALTH OF KENTUCKY

NOTES TO THE SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE

JUNE 30, 1996

(Continued)

Note 1 - Purpose of the Schedules and Significant Accounting Policies (Continued)

Inter-agency Activity - Certain transactions relating to federal financial assistance may appear in the records of more than one state agency. To avoid the overstatement of federal expenditures, the following policies were adopted for the presentation of the Commonwealth's schedules of federal financial assistance:

- (a) Federal moneys may be received by one state agency (primary state agency - recipient) and passed through to another state agency (secondary state agency - subrecipient) where the moneys are expended. Except for pass throughs to state universities as discussed below, this inter-agency transfer activity is reported in the Commonwealth's schedules of federal financial assistance as follows:
 - Under the primary state agency, the federal program is reported as a direct program. However, the transfer of money to the secondary state agency is not included in the primary state agency's expenditures.
 - Under the secondary state agency, the federal program is reported as a pass-through program. The expenditure of the transferred moneys is reported in the secondary agency's expenditures.

Because the Commonwealth's schedules exclude federal financial assistance related to state universities, when a state agency passes federal money to a state university, this is reported in the schedules as an expenditure of that state agency.

- (b) Federal moneys received by a state agency and used to purchase goods or services from another state agency are reported in the Commonwealth's schedules only by the purchasing agency as an expenditure.

Intra-agency Activity - Federal moneys may be received by one organizational unit of a state agency and passed through to another organizational unit within the same agency and within the same program. This intra-agency transfer activity has been eliminated from the schedules.

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE
JUNE 30, 1996
(Continued)

Note 2 - Major Programs - Under the provisions of the Single Audit Act of 1984 and OMB Circular A-128, a major federal financial assistance program for the Commonwealth of Kentucky means any program for which total expenditures of federal financial assistance exceeded \$10 million. In relation to noncash federal financial assistance programs, this threshold is generally applied to the amount of assistance expended during the year as presented on the noncash schedules of federal financial assistance. In the case of guarantee type programs, this threshold is applied to the value of new guaranteed loans/debentures during the year, plus the balance of guaranteed loans/debentures from previous years for which the federal government was still at risk during the year, plus any interest subsidy, cash, or administrative costs allowance received. In relation to revolving loan type programs, this threshold is applied to the value of new loans during the year, plus the balance of loans from previous years which were outstanding during the year, plus the amount of interest income collected during the year.

The Commonwealth had 35 programs (cash and noncash) which met the major program definition for the year ended June 30, 1996, some of which were administered by more than one state agency. These major programs were:

10.550	Food Distribution	\$ 13,530,944
10.551	Food Stamps	417,255,481
10.553	School Breakfast Program	23,903,768
10.555	National School Lunch Program	77,654,481
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	76,729,224
10.558	Child and Adult Care Food Program	13,724,813
10.561	State Administrative Matching Grants for Food Stamp Program	27,059,781
14.182	Lower Income Housing Assistance Program – Section 8 New Construction/Substantial Rehabilitation	72,078,583
14.228	Community Development Block Grants/State's Program	27,775,494

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE
JUNE 30, 1996
(Continued)

Note 2 - Major Programs – (Continued)

15.250	Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	13,134,507
15.252	Abandoned Mine Land Reclamation (AMLR) Program	10,632,717
17.207	Employment Services	10,540,942
17.225	Unemployment Insurance	22,196,551
17.250	Job Training Partnership Act	31,520,497
20.205	Highway Planning and Construction	257,886,698
59.041	Certified Development Company Loans (504 Loans)	14,192,283
66.458	Capitalization Grants for State Revolving Funds	34,480,725
83.516	Disaster Assistance	10,709,783
84.010	Title I Grants to Local Educational Agencies	120,012,180
84.027	Special Education - Grants to States	34,202,769
84.032	Federal Family Education Loans	49,075,866
84.048	Vocational Education – Basic Grants to States	18,421,636
84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	41,532,268
93.560	Family Support Payments to States - Assistance Payments	159,411,958
93.561	Job Opportunities and Basic Skills Training	13,360,217
93.563	Child Support Enforcement	26,965,723
93.568	Low-Income Home Energy Assistance	17,958,674
93.575	Child Care and Development Block Grant	19,034,574
93.658	Foster Care - Title IV-E	49,468,563
93.667	Social Services Block Grant	41,285,541

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE
JUNE 30, 1996
(Continued)

Note 2 - Major Programs – (Continued)

93.778	Medical Assistance Program	1,464,333,547
93.959	Block Grants for Prevention and Treatment of Substance Abuse	14,367,432
93.994	Maternal and Child Health Services Block Grant to the States	14,430,810
96.001	Social Security – Disability Insurance	24,126,955
NA	FHA/VA Insured Loans	203,526,475
<u>Total Major Programs</u>		<u>\$3,466,522,460</u>

Note 3 - Federally Assisted Loan Programs - The Commonwealth has several loan programs made possible with initial advances in prior years from the federal government. In addition, some loan programs are guaranteed by the federal government.

- a) The Kentucky Rural Rehabilitation Student Loan Program was initially awarded \$672,629 in 1970 by the U.S. Farmers Home Administration. Since 1970, the program has operated on interest from student loans outstanding and on income from investments in U. S. Treasury Bills and overnight investments. Investments in Treasury Bills totaled \$544,746 and student loans outstanding totaled \$88,427 as of June 30, 1996.

In June 1993, \$750,000 of the program's assets was deposited into six different banks for the establishment of an Agriculture and Agribusiness Internship and Scholarship Program to be jointly administered by the Department of Agriculture and the Governor's Scholars Program, Inc. \$500,000 was in certificates of deposit and \$250,000 was in an operating account. The revenues earned and expenditures made were not recorded in the Commonwealth of Kentucky's accounting records. However, this activity is included in the Department of Agriculture's Schedule of Federal Financial Assistance and appropriately reported on the cash basis. Certificates of deposit totaled \$720,010 and cash in interest-bearing bank accounts totaled \$42,783 as of June 30, 1996.

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE
JUNE 30, 1996
(Continued)

Note 3 - Federally Assisted Loan Programs (Continued)

- b) The Appalachian Regional Development Program (CFDA #23.001) had one outstanding loan at July 1, 1995 and during the year ended June 30, 1996. The amount of this loan is \$210,000. No new loans were made during the year ended June 30, 1996. No loans were paid off for the year ended June 30, 1996. The balance of the outstanding loan was \$132,112 as of June 30, 1996.
- c) The Commonwealth Small Business Development Corporation provides fixed asset loans to small businesses located in Kentucky. Loans, which are guaranteed by the U.S. Small Business Administration, are funded by financial institutions or by issuing debentures. At June 30, 1996, federal programs of the Commonwealth Small Business Development Corporation (CFDA #59.041) had issued debentures in the principal amount of \$25,823,000 of which the outstanding balance is \$14,192,283. This is a guarantee program only, and no federal assistance is received by the Corporation.
- d) The Appalachian Housing Project Planning Loan, Technical Assistance Grant and Site Development and Off-Site Improvement Grant: State Appalachian Housing Programs (CFDA #23.005) administered by the Kentucky Housing Corporation is awarded a yearly grant from the U.S. Appalachian Regional Commission. Some of these moneys are used to provide loans to qualified recipients. The loans are secured by notes and mortgages against property owned by the loan recipient. There were no loans outstanding under the Appalachian Regional Commission Contract 78-140 as of June 30, 1996.
- e) Total moneys for the Gas System Restoration Project, administered by the Department for Local Government, consist of \$3,150,000 from the U.S. Economic Development Administration; \$500,000 from the U.S. Appalachian Regional Commission; and \$650,000 in state matching moneys for a total commitment to the revolving loan program of \$4,300,000. All moneys had been received and paid out for loans as of June 30, 1996. In addition, principal and interest paid back may be paid out again for loans. The cumulative amount loaned as of June 30, 1996, was \$6,670,097. Cumulative principal payments received as of June 30, 1996, totaled \$1,053,656 and cumulative loans written off as of June 30, 1996, were \$87,651, leaving a loans receivable balance of \$5,528,790 at June 30, 1996.

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE
JUNE 30, 1996
(Continued)

Note 3 - Federally Assisted Loan Programs (Continued)

- f) The Kentucky Higher Education Student Loan Corporation issues revenue bonds in order to purchase student loans authorized under the Federal Family Education Loans program (CFDA #84.032). Substantially all loans made and purchased by the Kentucky Higher Education Student Loan Corporation are guaranteed by the Kentucky Higher Education Assistance Authority. The U.S. Department of Education provides for reinsurance of loans guaranteed by the Authority. Outstanding loans guaranteed under this program totaled \$1,584,863,271 as of June 30, 1996.

In addition to the federal expenditures presented in the schedules of cash assistance programs for the Kentucky Higher Education Assistance Authority, the Kentucky Higher Education Student Loan Corporation also received interest benefits and a special allowance from the U.S. Department of Education. The Corporation's receipts disclosed below are not presented in the schedules since they are not offset by federal expenditures:

- A portion of the interest due on outstanding student loans is paid by the U.S. Department of Education until such time as the student's repayment period should begin. In addition, the Corporation receives an amount equivalent to three percent per year on the unpaid principal amount during the repayment period for loans made prior to December 15, 1968. During the year ended June 30, 1996, the Corporation received \$6,164,038 in interest benefits, and \$3,363,370 was receivable at year-end.
 - The Corporation also receives a special allowance on all program loans disbursed prior to October 1, 1981, and program loans disbursed on or after October 1, 1981, that qualify for interest benefits. During the year ended June 30, 1996, the Corporation received \$3,694,286 in special allowance payments, and \$1,631,199 was due from the federal government at year-end.
- g) The Kentucky Infrastructure Authority administers a wastewater revolving loan program that is funded by the U.S. Environmental Protection Agency's Capitalization Grants For State Revolving Funds Program (CFDA #66.458). During the year ended June 30, 1996, the Authority issued loans totaling \$33,168,682 with outstanding loans of \$109,387,618 at year-end.
- h) The Kentucky Housing Corporation provides mortgage bank assistance in originating and processing FHA/VA insured housing loans. Loans guaranteed under this program were \$83,732,884 and \$87,171,447 during the years ended June 30, 1996, and 1995, respectively. At June 30, 1996, the total book value of the loans outstanding was \$ 203,526,475.

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE
JUNE 30, 1996
(Continued)

Note 4 - Activity Occurring in Noncash Programs With Inventoriable Items - The Cabinet Families and Children and Cabinet for Health Services is a pass-through entity for local organizations. The Cabinet receives, stores, and distributes inventory items related to noncash programs. In these instances, all items received are distributed.

	Food Stamps Program CFDA #10.551	Temporary Emergency Food Assistance Commodities Program CFDA # 10.569	Childhood Immunization Grants CFDA# 93.268
Beginning Inventory, July 1, 1995	\$ 83,216,337	\$ 0	\$ 0
Current Year Receipts	418,750,000	1,101,051	2,062,369
Current Year Distributions	(417,255,481)	(745,165)	(2,062,369)
Transfers/Losses/Adjustments	4,721,629	37,772	0
Ending Inventory, June 30, 1996	\$ 89,432,485	\$ 393,658	\$ 0

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE
JUNE 30, 1996
(Continued)

Note 5 - Food Distribution Inventories and Transferred Food - Records in the Department of Agriculture, Division of Food Distribution, show that shipments of USDA commodities received into distributors' warehouses are issued to subrecipients upon receipt. In addition, the Division operated a warehouse in Louisville, KY, for the Commodity Supplemental Food Program (CFDA #10.565). The dollar value of the inventory, based on the USDA Commodity File dated May 1996 is as follows:

	CSFP Warehouse CFDA #10.565
Beginning Inventory - July 1, 1995	\$ 517,884
Adjustment	0
Adjusted Beginning Inventory	517,884
Received	1,238,831
Issued to Recipients	(1,326,083)
Damaged	(4,191)
Used for Demonstration	(37)
Ending Inventory, June 30, 1996	\$ 426,404

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE
JUNE 30, 1996
(Continued)

Note 6 - Highway Planning and Construction Program (CFDA #20.205) - The information reported for this program represents the activity of all open projects during the year ended June 30, 1996. These projects were funded from several apportionments. Apportionments refer to a federal statutorily prescribed division or assignment of funds. The expenditures reflected on these schedules include expenditures for advance construction projects which are not yet under agreements with the Federal Highway Administration.

- Program Income - The Highway Planning and Construction Program earned program income in the Right-of-Way phase through the sale and rental of real property. Income earned in this manner was classified as negative expenditures resulting in a reduction to federal income of \$613,580 for the year ended June 30, 1996
- Prior Year Refunds - Expenditures for the program are shown net of prior year refunds resulting from a reimbursement of prior year expenditures. For the year ended June 30 1996, prior year refunds totaled \$935,348.

Note 7 - Unemployment Insurance (CFDA #17.225) -- \$283,126,640 was received from the Unemployment Insurance Trust Fund for payment of unemployment benefits. The Commonwealth paid out \$256,504,093 in benefits during the year ended June 30, 1996. The amounts shown on the accompanying schedules of federal financial assistance – cash assistance programs reflect federal moneys for administration. The remainder consists of state tax collections and employer contributions to the Trust Fund.

Note 8 - Outdoor Recreation - Acquisition, Development and Planning (CFDA # 15.916) -- Administrative costs are shown as expended when received from the federal government. These costs are recovered through a negotiated fixed indirect cost rate. Any over or under recovery will be recouped in a future rate.

Note 9 - Joint Funding Administration - The Joint Funding Administration Program consists of grants from the following federal agencies:

11.302	U.S. Department of Commerce
14.228	U.S. Department of Housing and Urban Development
16.579	U.S. Department of Justice
23.009	U.S. Appalachian Regional Commission

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE
JUNE 30, 1996
(Continued)

Note 10 - Rental Housing Rehabilitation (CFDA #14.230) – U.S. Department of Housing and Urban Development money for the Rental Housing Rehabilitation Program was awarded to the Commonwealth and administered by the Department for Local Government, Division of Community Programs. Eligible communities made application to the Department, and funds were awarded based on selection criteria and the availability of funds. A unique concept of the Rental Rehabilitation Program was the Cash and Management Information (C/MI) System (now being used for the HOME Program). This system managed program funds, disbursed grant funds and collected project and tenant data. The funds for this program were disbursed directly to the local recipient. Therefore, expenditures for this program were not recorded in the Commonwealth of Kentucky's accounting records. No administrative moneys were received by the Department for Local Government for the year ended June 30, 1996. In prior years, administrative moneys were received by the Department of Local Government and then passed on to local recipients. Agency records show the following cumulative amounts were expended for each grant year through June 30, 1996:

R-84-SG-21-0100	\$ 914,900
R-87-SG-21-0100	1,080,000
R-88-SG-21-0100	1,233,000
R-89-SG-21-0100	1,070,000
R-90-SG-21-0100	720,000
R-91-SG-21-0100	388,000
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	\$ 5,405,900

Note 11 - Community Development Block Grants/State's Program (CFDA #14.228) -- The Commonwealth matches the federal portion of administration dollar for dollar. Cash expenditures include the federal portion of administration.

Note 12 - Cabinet for Families and Children and Cabinet for Health Services -- In December 1995, the Governor issued Executive Order 95-79, which abolished the Cabinet for Human Resources and replaced it with the Cabinet for Families and Children and Cabinet for Health Services. The 1996 General Assembly enacted legislation including Secretary positions for both new Cabinets, but it failed to enact legislation confirming the reorganization Executive Order. This resulted in nullifying the reorganization of Executive Order 95-79. In July 1996, the Governor issued Executive Order 96-862 abolishing the Cabinet for Human Resources and providing for its reorganization into two new Cabinets - the Cabinet for Families and Children and Cabinet for Health Services. Consequently, from January 1996 through June 30, 1996, the former Cabinet for Human Resources operated, in at least some capacity, as two separate cabinets.

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE
JUNE 30, 1996
(Continued)

Note 13 - Conditional Projects - The Department of Fish and Wildlife Resources leases land from the U.S. Army Corps of Engineers for Condition 5 and Condition 3 Projects. These projects stipulate that the acreage leased be managed for wildlife purposes. Part of the management can include leasing the land for farming practices. If this election is made, the Department will advertise for bids and accept the highest proposal. The bidder (farmer) then remits his bid price to the Department, which must account for this income. Condition 5 guidelines require that the income be used on the area within the next five years to promote wildlife. Similarly, Condition 3 Projects require the income to be used within the next three years. If the moneys are not used in this period of time, the unexpended balance reverts to the U.S. Army Corps of Engineers.

Currently, three areas under the Condition 5 guidelines are under operation. Income from each area is relatively consistent each year. Receipts during 1996 were:

Barren River WMA	\$	14,830
Grassy Pond WMA	\$	45,781
Green River WMA	\$	37,396

In addition, four areas under Condition 3 guidelines are under operation. Receipts during 1996 were:

Cumberland Lake WMA	\$	130
Dewey Lake WMA	\$	150
Fishtrap Lake WMA	\$	11,269
Paintsville Lake WMA	\$	100

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE
JUNE 30, 1996
(Continued)

Note 14 - Manufactured Home Construction Program - The Department of Housing, Buildings and Construction entered into a cooperative agreement with the U.S. Department of Housing and Urban Development on July 15, 1976, whereby the Department of Housing, Buildings and Construction inspects all manufactured housing shipped into the state of Kentucky. The U.S. Department of Housing and Urban Development pays \$9.00 per floor of each new manufactured home whose location, after leaving the manufacturing plant, is on the premises of a distributor, dealer, or purchaser in Kentucky. An additional \$2.50 per home is received for homes manufactured within the Commonwealth of Kentucky. These services are performed in connection with the National Mobile Home Construction and Safety Standards Act of 1974.

For these services, the Department of Housing, Buildings, and Construction received \$144,703 in fiscal year 1996. The Department's expenditures are not relevant since this agreement uses Department personnel, materials, and equipment for services regardless of the Department's cost.

Note 15 - Changes in CFDA # Classification - Due to either errors or necessary reclassifications, some programs or portions thereof are currently reported under different CFDA numbers or titles from those previously reported in the 1995 schedules of federal financial assistance. Following is a listing of these changes:

<u>Previously Reported in 1995 as</u>			
State Agency	1996	1995	
Program Title			
<u>Kentucky Arts Council</u>	<u>CFDA #</u>	<u>CFDA #</u>	<u>Program Name 1995</u>
• Promotion of the Arts-Grants to Organizations and Individuals	45.024	45.003	Promotion of the Arts-Arts in Education
• Promotion of the Arts-Grants to Organizations and Individuals	45.024	45.010	Promotion of the Arts-Expansion Arts
• Promotion of the Arts-Grants to Organizations and Individuals	45.024	45.015	Promotion of the Arts-Folk and Traditional Arts
• Promotion of the Arts-Partnership Agreements	45.025	45.007	Promotion of the Arts-State and Regional Program

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE
JUNE 30, 1996
(Continued)

Note 15 - Changes in CFDA # Classification (Continued)

**Cabinet for Families and Children and Cabinet for
Health Services**

• Paducah Gaseous Diffusion Plant Environmental Monitoring and Oversight	81.502	NA	Same
• Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944	93.118	Acquired Immunodeficiency Syndrome (AIDS) Activity
• Clinical Laboratory Improvement Act	NA	NA	Department for Health and Human Services
• The Placement and Treatment of Neuropsychiatric Patients	NA	NA	Department for Health and Human Services
• National Institute of Health-Stroke Belt Initiative	NA	NA	National Institute of Health

Kentucky Historical Society

• Promotion of the Arts-Grants to Organizations and Individuals	45.024	45.015	Promotion of the Arts-Folk and Traditional Arts
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Labor Cabinet

• Occupational Safety and Health Data Collections	17.504	17.500	Occupational Safety and Health
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**Natural Resources and Environmental Protection
Cabinet**

• Paducah Gaseous Diffusion Plant Environmental Monitoring and Oversight	81.502	NA	Same
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Workforce Development Cabinet

• School-to-Work Implementation Grant	84.278	84.199	Vocational Education – Cooperative Demonstration
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Note 16 - Zero Expenditure Programs - These programs had no expenditures during the year ended June 30, 1996. They included programs with no activity during the year such as old programs not officially closed out or new programs issued late in the fiscal year. They also included programs with activity other than expenditures.

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULES OF FEDERAL FINANCIAL ASSISTANCE
JUNE 30, 1996
(Continued)

Note 17 - Kentucky Commission on Human Rights Programs - The Kentucky Commission on Human Rights entered into contracts with the U.S. Department of Housing and Urban Development and the U.S. Equal Employment Opportunity Commission whereby the Kentucky Commission on Human Rights investigates instances of possible discriminatory practices relating to housing. Upon the decision to perform the investigation, the case is filed with state and federal authorities. When the Commission files the case with state authorities, state statutes require completion of the case. The Commission utilizes their personnel, materials and equipment to complete these cases regardless of possible reimbursement from the federal government. As a result, the Commission did not track expenditures relating to these cases.

The contracts provide for a set amount for each case to be paid by the Commission upon completion of the case investigated. For these services, the Commission received \$64,335 for CFDA #14.408 and \$43,424 for CFDA #30.002 during the year ended June 30, 1996.

Note 18 - Multiple Pass-Through Grantor's Numbers - There are multiple pass-through grantor's numbers for this program. These multiple numbers are listed in the Schedules of Federal Financial Assistance - By State Agency.

Note 19 - Crude Oil Overcharge - The Department of Education received federal funds as a result of litigation for alleged overcharges for crude oil or refined petroleum products sold during the fiscal year. The funds were given to the Department of Education to distribute to local school districts using the same methods for distributing federal funds as under other federal programs.

REPORT ON INTERNAL CONTROLS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

Report on the Internal Control Structure Based on an
Audit of General-Purpose Financial Statements Performed in
Accordance With Generally Accepted Government Auditing Standards

To the People of Kentucky
The Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet

We have audited the general-purpose financial statements of the Commonwealth of Kentucky as of and for the year ended June 30, 1996, and have issued our report thereon dated December 30, 1996.

State universities which are a part of the Commonwealth of Kentucky financial reporting entity were included in the audit of the Commonwealth's general-purpose financial statements but were excluded from the Statewide Single Audit of the Commonwealth of Kentucky under the provisions of the Single Audit Act of 1984 and Section 6c of Office of Management and Budget Circular A-128, Audits of State and Local Governments. Therefore, state universities are excluded from this report, and hereafter in this report the designation "Commonwealth of Kentucky" does not include state universities. Any auditors' reports issued on internal control related to state universities are available from the universities and are not incorporated in this report.

We conducted our audit in accordance with generally accepted government auditing standards, except that a portion of the university and college discretely presented component units was audited in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement.

144 CAPITOL ANNEX
FRANKFORT, KY 40601-3448
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AN EQUAL OPPORTUNITY EMPLOYER M/F/D

2439 U.S. 127 SOUTH
FRANKFORT, KY 40601-8939
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To the People of Kentucky
The Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet

The management of the Commonwealth of Kentucky is responsible for establishing and maintaining an internal control structure. The objectives of an internal control structure are to provide management with reasonable, but not absolute assurance, that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general-purpose financial statements in accordance with generally accepted accounting principles.

In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. Due to inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the general-purpose financial statements of the Commonwealth of Kentucky for the year ended June 30, 1996, we obtained an understanding of the internal control structure.

We did not obtain an understanding of the internal control structure relating to the Bluegrass State Skills Corporation, Kentucky Center for the Arts Corporation, Commonwealth Small Business Development Corporation, Kentucky Economic Development Finance Authority, Kentucky Educational Savings Plan Trust, Kentucky Authority for Educational Television, Kentucky Educational Television Foundation, Kentucky Higher Education Assistance Authority, Kentucky Higher Education Student Loan Corporation, Kentucky Housing Corporation, Kentucky Infrastructure Authority, Judicial Form Retirement System, Kentucky Local Correctional Facilities Construction Authority, Kentucky Lottery Corporation, Kentucky Mortgage Insurance and Guarantee Corporation, Petroleum Storage Tank Environmental Assurance Fund, Kentucky Retirement Systems, Kentucky State Fair Board, Teachers' Retirement System, Transportation Cabinet, Turnpike Authority of Kentucky, and Kentucky Workers' Compensation Insurance Program; and our consideration of the internal control structure did not include certain of the control categories relating to the Finance and Administration Cabinet. The understanding of these agencies' internal control structure was obtained solely or partly by other auditors whose reports thereon have been furnished to us, and our report presented herein, insofar as it relates to the above-mentioned agencies, is based solely or partly on the reports of the other auditors.

With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the general-purpose financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

To the People of Kentucky
The Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general-purpose financial statements. The reportable conditions noted below will be further discussed in the comments and recommendations section of this report as indicated by notated page number.

- Finance and Administration Cabinet – The Reporting Branch's procedures for adjusting the Commonwealth's cash basis statements to conform to generally accepted accounting principles for presentation in the Comprehensive Annual Financial Report were not always documented and did not always result in conformance with generally accepted accounting principles. (See page 228.)
- Finance and Administration Cabinet – The Cabinet had not committed the resources or formally begun the process of assessing the effect of processing year 2000 data, in order to eliminate processing errors or potential application systems' failure. (See page 229.)
- Finance and Administration Cabinet – The Cabinet's control procedures over system security and data files were not adequate to ensure proper segregation of duties and application of system access request documentation. (See page 230.)
- Finance and Administration Cabinet – The Cabinet did not utilize the automatic log-off feature for on-line applications through the Customer Information Control System to ensure against unauthorized access to application systems which include critical or confidential data. (See page 231.)
- Finance and Administration Cabinet – The Cabinet did not have adequate internal control procedures over fixed assets to ensure that automated agencies' balances were recorded in the Statewide Accounting and Reporting System's Fixed Asset file correctly. (See page 232.)
- Personnel Cabinet – The Cabinet's access control procedures were not adequate to ensure that only authorized personnel could access Uniform Payroll/Personnel System data. (See page 234.)
- Personnel Cabinet – The Cabinet had not developed a plan to assess the effects of processing year 2000 data on existing systems, funding, and labor costs, to eliminate potential processing errors. (See page 234.)

To the People of Kentucky

The Honorable Paul E. Patton, Governor

John P. McCarty, Secretary

Finance and Administration Cabinet

- Cabinet for Health Services – The Department for Medicaid Services did not have procedures in place to resolve disputed amounts in the Drug Rebate Program. (See page 235.)
- Cabinet for Health Services – The Cabinet’s general computer controls over the Disability Determination Computer System were not adequate to ensure that 1) the system was year 2000 compliant and 2) the system and technological information were secure against unauthorized access. (See page 240.)
- Cabinet for Health Services – The Cabinet did not have procedures to review hospital reimbursement claims for indigent care costs to determine the eligibility of the indigent or to verify the length of stay; nor were duties related to these reimbursements adequately segregated. (See page 242.)
- Cabinet for Health Services – The Department for Medicaid Services did not have procedures to ensure that only state-approved services were paid through the Medical Assistance Program. (See page 248.)
- Cabinet for Health Services – The Cabinet did not have standardized procedures to determine estimates of the probability of loss and potential monetary damages associated with contingent liabilities; nor was documentation present to support these estimates. (See page 250.)
- Kentucky Kare Plan – The Personnel Cabinet had not established an adequate centralized system to accumulate and control accounting and membership information relative to all facets of the Kentucky Kare Plan. (See page 265.)
- Kentucky Kare Plan – The Personnel Cabinet did not adequately monitor the expenditures made by its third-party administrators. (See page 266.)
- Kentucky Kare Plan – The Personnel Cabinet did not obtain assurance that general and application computer controls at the third-party administrator were operating properly as verified through an independent audit. (See page 266.)
- Kentucky Kare Plan – Segregation of duties over premium billings and receipts at Kentucky Kare were not adequate to ensure that all premiums due were collected and deposited. This was materially resolved when receipt and billing duties were transferred to the Kentucky Health Purchasing Alliance in January 1996, and no further comment is deemed necessary.

To the People of Kentucky
The Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet

- Kentucky Health Purchasing Alliance – The Kentucky Health Purchasing Alliance did not have adequate controls in place to monitor the accounting and administrative functions of its third-party administrator. (See page 270.)
- Department of Education – The Department of Education did not have adequate control procedures in place to reconcile the school districts' share of health insurance payments made to HealthPlan Services, Inc., (third-party administrator of Kentucky Health Purchasing Alliance) with the amount billed by HealthPlan Services, Inc. (See page 274.)

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general-purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above. These conditions were considered in determining the nature, timing, and extent of the procedures to be performed in our audit of the general-purpose financial statements of the Commonwealth of Kentucky for the year ended June 30, 1996. With the exception of the third condition, the material conditions noted below will be further discussed in the comments and recommendations section of this report as indicated by notated page numbers.

- Finance and Administration Cabinet – The Division of Accounts had not instituted adequate procedures to obtain information relative to the state investment pool and to ensure the pool was properly allocated and reported in the Comprehensive Annual Financial Report. (See page 215.)
- Cabinet for Health Services – The Cabinet did not have policies and procedures in place to evaluate areas where estimates should be made to accrue accounts payable. (See page 219.)
- Revenue Cabinet – The Revenue Cabinet did not have adequate audit procedures over withholdings. (Due to the confidential nature of this condition, the related comment and recommendation will be presented to the Revenue Cabinet in a separate report.)

To the People of Kentucky

The Honorable Paul E. Patton, Governor

John P. McCarty, Secretary


Finance and Administration Cabinet

- Revenue Cabinet – The Revenue Cabinet's receipt procedures did not always provide an adequate mechanism to ensure that information critical to determining refunds, penalties, and interest was captured and recorded. (See page 220.)
- Revenue Cabinet – The Revenue Cabinet had not established procedures to ensure only appropriately authorized modifications were made to application programs placed into production. (See page 221.)
- Revenue Cabinet – The Revenue Cabinet did not utilize the automatic log-off feature for Information Management System and Customer Information Control System applications. (See page 223.)
- Revenue Cabinet – The Revenue Cabinet had not developed a specific plan to establish goal dates for initiating and completing computer system modifications in order to process year 2000 data. (See page 224.)
- Revenue Cabinet – The Revenue Cabinet did not have adequate procedures in place to track the status of cases involving contingent liabilities. (See page 226.)

Other matters involving the internal control structure and its operation were noted, and these matters are presented in the comments and recommendations section of this report. Some matters related to the Revenue Cabinet's procedures over the sales and use tax and health care provider tax systems, as well as over corporate tax returns, were considered to be of a confidential matter and, therefore, will be presented to the Revenue Cabinet in a separate, confidential report.

This report is intended for the information of management and applicable federal agencies. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record, and its distribution is not limited.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

December 30, 1996



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

Single Audit Report on the Internal Control Structure Used
in Administering Federal Financial Assistance Programs

To the People of Kentucky
The Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet

We have audited the general-purpose financial statements of the Commonwealth of Kentucky as of and for the year ended June 30, 1996, and have issued our report thereon dated December 30, 1996. We have also audited the Commonwealth's compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated September 29, 1997.

State universities were excluded from the Statewide Single Audit of the Commonwealth of Kentucky under the provisions of the Single Audit Act of 1984 and Section 6c of Office of Management and Budget Circular A-128, Audits of State and Local Governments. Therefore, state universities are excluded from this report, and hereafter in this report the designation "Commonwealth of Kentucky" does not include state universities.

We conducted our audits in accordance with generally accepted government auditing standards and OMB Circular A-128. Those standards and OMB Circular A-128 require that we plan and perform the audits to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement and about whether the Commonwealth of Kentucky complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

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To the People of Kentucky
The Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet

In planning and performing our audits for the year ended June 30, 1996, we considered the Commonwealth of Kentucky's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the Commonwealth's general-purpose financial statements and on its compliance with requirements applicable to major programs, and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the general-purpose financial statements in a separate report dated December 30, 1996.

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance did not include control categories relating to the Kentucky Center for the Arts Corporation, Commonwealth Small Business Development Corporation, Kentucky Authority for Educational Television, Kentucky Educational Television Foundation, Kentucky Higher Education Assistance Authority, Kentucky Higher Education Student Loan Corporation, Kentucky Housing Corporation, and Kentucky Infrastructure Authority; and our consideration of the internal control structure did not include certain of the control categories relating to the Cabinet for Health Services, Finance and Administration Cabinet, and Transportation Cabinet. The consideration of these control categories was made by other auditors whose reports thereon have been furnished to us, and our report presented herein, insofar as it relates to the above-mentioned agencies, is based solely or partly on the reports of the other auditors.

The management of the Commonwealth of Kentucky is responsible for establishing and maintaining an internal control structure. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general-purpose financial statements in accordance with generally accepted accounting principles, and that federal financial assistance programs are managed in compliance with applicable laws and regulations. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. Due to inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

To the People of Kentucky
The Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet

Accounting Applications

Cash receipts
Purchasing and receiving
Cash disbursements
Payroll and personnel
Inventory
Investments
Loans and loan guarantees
Receivables and payables

General Requirements

Political activity
Davis-Bacon Act
Civil rights
Cash management
Real property acquisition
Relocation assistance
Federal financial reports
Allowable costs/cost principles
Drug-free workplace
Administrative requirements

Specific Requirements

Types of services
Eligibility
Matching, level of effort, or earmarking
Reporting
Cost allocation
Monitoring subrecipients
Due diligence procedures, materials
 testing, first use, binding commitment, utilization control,
 inventory control, parent locator service,
 and other special requirements

To the People of Kentucky
The Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet

Claims for Advances and Reimbursements

Amounts Claimed or Used for Matching

Except as discussed in the following paragraph, for all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

Because of the large number of nonmajor programs and the decentralized administration of these programs, we performed procedures to obtain an understanding of the internal control structure policies and procedures relevant to nonmajor programs on a cyclical basis. Our procedures during the current year covered 27 percent of the nonmajor program expenditures of the Commonwealth of Kentucky.

During the year ended June 30, 1996, the Commonwealth of Kentucky expended 97 percent of its total federal financial assistance under major federal financial assistance programs.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to each of the Commonwealth of Kentucky's major federal financial assistance programs, which are identified in the accompanying schedules of federal financial assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Commonwealth of Kentucky's ability to administer federal financial assistance programs in accordance with applicable laws and regulations. The reportable conditions noted below will be further discussed in the comments and recommendations section of this report as indicated by notated page number.

To the People of Kentucky

The Honorable Paul E. Patton, Governor

John P. McCarty, Secretary

Finance and Administration Cabinet

- Finance and Administration Cabinet – The Cabinet had not committed the resources or formally begun the process of assessing the effect of processing year 2000 data, in order to eliminate processing errors or potential application systems' failure. (See page 229.)
- Finance and Administration Cabinet – The Cabinet's control procedures over system security and data files were not adequate to ensure proper segregation of duties and application of system access request documentation. (See page 230.)
- Finance and Administration Cabinet – The Cabinet did not utilize the automatic log-off feature for on-line applications through the Customer Information Control System to ensure against unauthorized access to application systems which include critical or confidential data. (See page 231.)
- Personnel Cabinet – The Cabinet's access control procedures were not adequate to ensure that only authorized personnel could access Uniform Payroll/Personnel System data. (See page 234.)
- Personnel Cabinet – The Cabinet had not developed a plan to assess the effects of processing year 2000 data on existing systems, funding, and labor costs, to eliminate potential processing errors. (See page 234.)
- Cabinet for Health Services – Internal controls over drug rebate billings, collection, and recording within the Medical Assistance Program's Drug Rebate Program were not adequate to ensure and document that accounts receivable were handled in accordance with management's assertions. (See page 235.)
- Cabinet for Health Services – The Cabinet's general computer controls over the Disability Determination Computer System were not adequate to ensure that 1) the system was year 2000 compliant and 2) the system and technological information was secure against unauthorized access. (See page 240.)
- Cabinet for Health Services – The Cabinet did not have procedures to ensure vendors providing services to federal programs had not been debarred or suspended by the federal government. (See page 243.)
- Cabinet for Health Services – The Department for Medicaid Services did not have adequate monitoring controls over the Alternative Intermediate Services for the Mentally Retarded and the Developmentally Disabled waiver program. (See page 244.)

To the People of Kentucky

The Honorable Paul E. Patton, Governor

John P. McCarty, Secretary

Finance and Administration Cabinet

- Cabinet for Health Services – The Department for Medicaid Services did not have procedures to ensure that only state-approved services were paid through the Medical Assistance Program. (See page 248.)
- Cabinet for Health Services – The Division of Maternal and Child Health approved project payments to the Universities for the final quarter of the fiscal year with no supporting documentation attached in some instances, and based on estimated expenditures, in other instances. (See page 249.)
- Cabinet for Health Services – The Division of Substance Abuse did not fully implement procedures to ensure that quarterly progress reports submitted by subrecipients were reviewed. (See page 251.)
- Cabinet for Families and Children – The Department for Social Insurance did not have procedures to ensure that their monitoring responsibilities were discharged in accordance with the requirements of the Low-Income Home Energy Assistance Program and OMB Circular A-128. Also, the Department for Social Insurance did not always apply alternative procedures that would have allowed the Department to determine compliance with applicable regulations in the absence of a subrecipient audit report. (See page 252.)
- Cabinet for Families and Children – The Department for Social Services did not have a comprehensive system to ensure that subrecipient audits were reviewed for compliance with applicable federal circulars. (See page 257.)
- Cabinet for Families and Children – The Department for Social Services failed to monitor Day Treatment and Chapter I programs for the year ended June 30, 1995, thus failing to ensure that days of service paid equaled the actual number of days a service was provided and that the subrecipient was in compliance with federal regulations. (See page 260.)
- Cabinet for Families and Children – The Department for Social Insurance did not have adequate procedures to monitor the contract issuance centers for the Food Stamp Program. (See page 262.)
- Cabinet for Families and Children – The Cabinet did not have procedures to ensure vendors providing services to federal programs had not been debarred or suspended by the federal government. (See page 243.)

To the People of Kentucky
The Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet

- Department of Military Affairs – The Department did not have adequate procedures to ensure all subrecipient audit reports were received and reviewed for compliance with applicable requirements or to ensure all noncompliances and questioned costs were followed up on in a timely manner. (See page 267.)

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above. These conditions were considered in determining the nature, timing, and extent of the procedures to be performed in our audit of the Commonwealth of Kentucky's compliance with requirements applicable to its major federal financial assistance programs for the year ended June 30, 1996, and this report does not affect our report thereon dated September 29, 1997. The material conditions noted below will be further discussed in the comments and recommendations section of this report as indicated by notated page numbers.

- Cabinet for Health Services – The Department for Medicaid Services did not have adequate procedures to ensure third-party liability information was obtained, reviewed, and input properly into the Medicaid Management Information System. (See page 216.)
- Cabinet for Families and Children – The Department for Social Insurance did not have adequate procedures to collect overpayments of advance transportation payments and to maintain records in the Job Opportunity and Basic Skills program. (See page 226.)

Other matters involving the internal control structure and its operation were noted, and these matters are presented in the comments and recommendations section of this report.

To the People of Kentucky
The Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet

This report is intended for the information of management and applicable federal agencies. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record, and its distribution is not limited.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

September 29, 1997

REPORT ON COMPLIANCE



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

Report on Compliance Based on an Audit of General-Purpose
Financial Statements Performed in Accordance With
Generally Accepted Government Auditing Standards

To The People of Kentucky
The Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet

We have audited the general-purpose financial statements of the Commonwealth of Kentucky as of and for the year ended June 30, 1996, and have issued our report thereon dated December 30, 1996.

State universities which are a part of the Commonwealth of Kentucky financial reporting entity were included in the audit of the Commonwealth's general-purpose financial statements but were excluded from the Statewide Single Audit of the Commonwealth of Kentucky under the provisions of the Single Audit Act of 1984 and Section 6c of Office of Management and Budget Circular A-128, Audits of State and Local Governments. Therefore, state universities are excluded from this report, and hereafter in this report the designation "Commonwealth of Kentucky" does not include state universities. Any auditors' reports issued on compliance related to state universities are available from the universities and are not incorporated in this report.

We conducted our audit in accordance with generally accepted government auditing standards, except that a portion of the university and college discretely presented component units was audited in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement.

To The People of Kentucky
The Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet

Compliance with laws, regulations, contracts, and grants applicable to the Commonwealth of Kentucky is the responsibility of the Commonwealth's management. As part of obtaining reasonable assurance about whether the general-purpose financial statements are free of material misstatement, we performed tests of the Commonwealth's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the general-purpose financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

We did not test compliance with laws, regulations, contracts, and grants relating to the Bluegrass State Skills Corporation, Kentucky Center for the Arts Corporation, Commonwealth Small Business Development Corporation, Kentucky Economic Development Finance Authority, Kentucky Educational Savings Plan Trust, Kentucky Authority for Educational Television, Kentucky Educational Television Foundation, Kentucky Higher Education Assistance Authority, Kentucky Higher Education Student Loan Corporation, Kentucky Housing Corporation, Kentucky Infrastructure Authority, Judicial Form Retirement System, Kentucky Local Correctional Facilities Construction Authority, Kentucky Lottery Corporation, Kentucky Mortgage Insurance and Guarantee Corporation, Petroleum Storage Tank Environmental Assurance Fund, Kentucky Retirement Systems, Kentucky State Fair Board, Teachers' Retirement System, Transportation Cabinet, Turnpike Authority of Kentucky, and Kentucky Workers' Compensation Insurance Program. These tests of compliance were conducted by other auditors whose reports thereon have been furnished to us, and our report presented herein, insofar as it relates to the above-mentioned agencies, is based solely on the reports of the other auditors.

During the course of our audit, we noted the following irregularity that is required to be reported herein under generally accepted government auditing standards:

- During the year ended June 30, 1996, corporate tax refunds in the amount of \$2,418,902 were fraudulently issued.

We considered this irregularity in forming our opinion on whether the Commonwealth of Kentucky's general-purpose financial statements are fairly presented, in all material respects, in conformity with generally accepted accounting principles, and this report does not affect our report dated December 30, 1996, on those general-purpose financial statements.

We also noted certain immaterial instances of noncompliance which are described in the accompanying schedule of noncompliance and questioned costs and, if appropriate, in the comments and recommendations section of this report.

To The People of Kentucky
The Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet

This report is intended for the information of management and applicable federal agencies. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record, and its distribution is not limited.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

December 30, 1996



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

Single Audit Opinion on Compliance With Specific Requirements
Applicable to Major Federal Financial Assistance Programs

To the People of Kentucky
The Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet

We have audited the general-purpose financial statements of the Commonwealth of Kentucky as of and for the year ended June 30, 1996, and have issued our report thereon dated December 30, 1996.

We have also audited the Commonwealth of Kentucky's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; subrecipient monitoring; cost allocation; due diligence procedures, materials testing, monitoring of program loans, first use, binding commitment, utilization control, inventory control, parent locator service, and other special tests and provisions contained in the Office of Management and Budget's Compliance Supplement for Single Audits of State and Local Governments; claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to each of its major federal financial assistance programs, which are identified in the accompanying schedules of federal financial assistance, for the year ended June 30, 1996, except as discussed in the following paragraph. The management of the Commonwealth of Kentucky is responsible for the Commonwealth's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

State universities were excluded from the Statewide Single Audit of the Commonwealth of Kentucky under the provisions of the Single Audit Act of 1984 and Section 6c of Office of Management and Budget Circular A-128, Audits of State and Local Governments. Therefore, state universities are excluded from this report, and hereafter in this report the designation "Commonwealth of Kentucky" does not include state universities.

To the People of Kentucky
The Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet

We conducted our audit of compliance with the requirements listed in the second paragraph of this report in accordance with generally accepted government auditing standards and OMB Circular A-128. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Commonwealth of Kentucky's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

We did not test compliance with the requirements listed above that are applicable to the major federal financial assistance programs of the Commonwealth Small Business Development Corporation, Kentucky Higher Education Assistance Authority, Kentucky Higher Education Student Loan Corporation, Kentucky Housing Corporation, and Kentucky Infrastructure Authority; and we did not test compliance with some of the requirements listed above that are applicable to the major federal financial assistance programs of the Cabinet for Health Services and the Cabinet for Families and Children. These tests of compliance were conducted by other auditors whose reports thereon have been furnished to us, and our opinion presented herein, insofar as it relates to the above-mentioned agencies, is based solely or partly on the reports of the other auditors.

The results of our audit procedures for the Job Opportunities and Basic Skills Training Program disclosed that the Cabinet for Families and Children did not pursue reimbursement of transportation payments paid in advance, when overpayments were identified. Federal regulation 45 CFR 255.4(j)(1) requires the Cabinet to take reasonable steps necessary to promptly correct any overpayments to a recipient. In our opinion, the Cabinet for Families and Children is not in compliance with this federal regulation applicable to the Job Opportunities and Basic Skills Training Program.

In addition, the results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to in the second paragraph, which are described in the accompanying schedule of noncompliance and questioned costs and, if appropriate, in the comments and recommendations section of this report. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

To the People of Kentucky
The Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet

In our opinion, based on our audit and the reports of other auditors, except for the instances of noncompliance with the requirement applicable to the Job Opportunities and Basic Skills Training Program referred to in the sixth paragraph of this report and identified in the accompanying schedule of noncompliance and questioned costs and in the comments and recommendations section of this report (see pages 192 and 226), the Commonwealth of Kentucky complied, in all material respects, with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; subrecipient monitoring; cost allocation; due diligence procedures, materials testing, monitoring of program loans, first use, binding commitment, utilization control, inventory control, parent locator service, and other special tests and provisions contained in the Office of Management and Budget's Compliance Supplement for Single Audits of State and Local Governments; claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to each of its major federal financial assistance programs for the year ended June 30, 1996.

This report is intended for the information of management and applicable federal agencies. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record, and its distribution is not limited.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

September 29, 1997



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

Single Audit Report on Compliance With the General Requirements
Applicable to Federal Financial Assistance Programs

To the People of Kentucky
The Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet

We have audited the general-purpose financial statements of the Commonwealth of Kentucky as of and for the year ended June 30, 1996, and have issued our report thereon dated December 30, 1996.

We have applied procedures to test the Commonwealth of Kentucky's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the accompanying schedules of federal financial assistance, for the year ended June 30, 1996, except as discussed in the following paragraph: political activity, Davis-Bacon Act, civil rights, cash management, real property acquisition, relocation assistance, federal financial reports, allowable costs/cost principles, drug-free workplace, and administrative requirements.

State universities were excluded from the Statewide Single Audit of the Commonwealth of Kentucky under the provisions of the Single Audit Act of 1984 and Section 6c of Office of Management and Budget Circular A-128, Audits of State and Local Governments. Therefore, state universities are excluded from this report, and hereafter in this report the designation "Commonwealth of Kentucky" does not include state universities.

Our procedures were limited to the applicable procedures described in the OMB's Compliance Supplement for Single Audits of State and Local Governments. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the Commonwealth's compliance with the requirements listed in the second paragraph. Accordingly, we do not express such an opinion.

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AN EQUAL OPPORTUNITY EMPLOYER M/F/D

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To the People of Kentucky
The Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet

We did not apply procedures to test compliance with the requirements listed in the second paragraph of this report that are applicable to the federal financial assistance programs of the Kentucky Center for the Arts Corporation, Commonwealth Small Business Development Corporation, Kentucky Authority for Educational Television, Kentucky Educational Television Foundation, Kentucky Higher Education Assistance Authority, Kentucky Higher Education Student Loan Corporation, Kentucky Housing Corporation, and Kentucky Infrastructure Authority; and we did not apply procedures to test compliance with some of the requirements listed in the second paragraph of this report that are applicable to the federal financial assistance programs of the Transportation Cabinet. These procedures were performed by other auditors whose reports thereon have been furnished to us, and our report herein, insofar as it relates to the above-mentioned agencies, is based solely or partly on the reports of the other auditors.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the Commonwealth of Kentucky had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed immaterial instances of noncompliance with those requirements, which are described in the accompanying schedule of noncompliance and questioned costs and, if appropriate, in the comments and recommendations section of this report.

This report is intended for the information of management and applicable federal agencies. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record, and its distribution is not limited.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

September 29, 1997



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

Single Audit Report on Compliance With Specific Requirements Applicable
to Nonmajor Federal Financial Assistance Program Transactions

To the People of Kentucky
The Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet

We have audited the general-purpose financial statements of the Commonwealth of Kentucky as of and for the year ended June 30, 1996, and have issued our report thereon dated December 30, 1996.

In connection with our audit of the general-purpose financial statements of the Commonwealth of Kentucky and with our consideration of the Commonwealth's control structure used to administer federal financial assistance programs, as required by Office of Management and Budget Circular A-128, Audits of State and Local Governments, we selected certain transactions applicable to certain nonmajor federal financial assistance programs for the year ended June 30, 1996, except as discussed in the following paragraph.

State universities were excluded from the Statewide Single Audit of the Commonwealth of Kentucky under the provisions of the Single Audit Act of 1984 and Section 6c of OMB Circular A-128. Therefore, state universities are excluded from this report, and hereafter in this report the designation "Commonwealth of Kentucky" does not include state universities.

As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing types of services allowed or unallowed, eligibility, special reporting, allowability of costs, matching, level of effort, or earmarking, and subrecipient monitoring that are applicable to the transactions referred to above. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the Commonwealth of Kentucky's compliance with these requirements. Accordingly, we do not express such an opinion.

144 CAPITOL ANNEX
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To the People of Kentucky
The Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet

We did not perform auditing procedures to test compliance with the requirements listed above that are applicable to the transactions of the Kentucky Center for the Arts Corporation, Kentucky Authority for Educational Television, Kentucky Educational Television Foundation, Kentucky Higher Education Assistance Authority, and Kentucky Housing Corporation. These procedures were performed by other auditors whose reports thereon have been furnished to us, and our report herein, insofar as it relates to the above-mentioned agencies, is based solely on the reports of the other auditors.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed above. With respect to items not tested, nothing came to our attention that caused us to believe that the Commonwealth of Kentucky had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed immaterial instances of noncompliance with those requirements, which are described in the accompanying schedule of noncompliance and questioned costs and, if appropriate, in the comments and recommendations section of this report.

This report is intended for the information of management and applicable federal agencies. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record, and its distribution is not limited.

Respectfully submitted,

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Edward B. Hatchett, Jr.
Auditor of Public Accounts

September 29, 1997

COMMONWEALTH OF KENTUCKY
SCHEDULE OF NONCOMPLIANCE AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1996

CFDA #	Program Title	State Agency	Noncompliance	Related Comment	Questioned Costs
<u>NONCOMPLIANCES RELATING TO FEDERAL FINANCIAL ASSISTANCE PROGRAMS</u>					
NA	Statewide Cost Allocation Plan (SWCAP)	Finance and Administration Cabinet	<p>We noted three instances where the SWCAP incorrectly contained food costs within allowable expenditures. The amount of the errors noted was \$1,718.97. Food products are not allowable expenditures for SWCAP allocations.</p> <p>According to OMB Circular A-87, "Costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as...meals...) are unallowable."</p>	51	\$ 1,719
			<p>We noted four instances where the SWCAP contained miscellaneous errors including incorrect bases, allocations, formulas, etc., for a net overstatement of \$75,672.</p> <p>These errors affect the net expenditures to be allocated among user agencies.</p>	51	75,672
NA	Multiprograms	Cabinet for Families and Children and Cabinet for Health Services	<p>The Cabinet for Families and Children and the Cabinet for Health Services (CFC and CHS) did not comply with certain Title VI requirements as set forth in 45 KAR 1:080.</p> <p>- CFC and CHS did not utilize the agency-wide compliance review instrument. 45 KAR 1:080, Section 1(5) requires that a compliance review instrument be developed by the agency, such as a self survey, assessment checklist, preaward, routine or enforcement plan, along with the criteria for selecting and scheduling reviews.</p>	No	0

COMMONWEALTH OF KENTUCKY
SCHEDULE OF NONCOMPLIANCE AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1996
(Continued)

CFDA #	Program Title	State Agency	Noncompliance	Related Comment	Questioned Costs
NA	(Continued)		- The standard Title VI annual update due July 1, 1996, included only one of the required six sections. 45 KAR 1:080, Section 4 requires the federal Title VI implementation plan contain the information prescribed by the section in succinct and concise language. Subsections (6), (7), (9), (10), (12), and (13) of this section shall be updated annually.		
NA	Multiprograms	Cabinet for Families and Children and Cabinet for Health Services	<p>CFC and CHS were not in compliance with established EEO procedures according to the Affirmative Action Plan for the following functions:</p> <p>We interviewed 12 EEO counselors and noted the following:</p> <ol style="list-style-type: none"> 1. Three sites where copies of the State's and Cabinet's Affirmative Action Plan were not made available to staff. 2. Two counselors were assigned more than seventy-five employees. 3. EEO complaint procedures were not posted at two of the offices and/or facilities. 4. One of the counselors was a supervisor. No documentation showing approval by the Cabinet EEO coordinator was provided. 5. One site's EEO counselor had transferred and had not been replaced. <p>According to the Affirmative Action Plan:</p> <ol style="list-style-type: none"> 1. A copy of the State's and Cabinets' Affirmative Action plans will be circulated to all Cabinet staff and must be made available to staff. 2.&5. EEO counselors should be appointed at the rate of one per location per seventy-five employees. 3. The EEO complaint procedure will be posted in all offices and/or facilities. 	No	0

COMMONWEALTH OF KENTUCKY
SCHEDULE OF NONCOMPLIANCE AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1996
(Continued)

CFDA #	Program Title	State Agency	Noncompliance	Related Comment	Questioned Costs
NA	(Continued)		4. Generally, EEO counselors will not be supervisors. (Exceptions may be approved by the Cabinet EEO coordinator.		
NA	Multiprograms	Kentucky Commission on Human Rights	The Kentucky Commission on Human Rights did not prepare an agency affirmative action plan pursuant to the State's Affirmative Action Plan and KRS 18A.138.	51	0
NA	Multiprograms	Kentucky Commission on Human Rights	The Kentucky Commission on Human Rights did not maintain required documents and adequate accounting records as required by 24 CFR Section 85.20(a)(2), 24 CFR Section 85.20(b)(2), and the specific language of the cooperative agreement FF204K934014.	51	0
NA	Multiprograms	Kentucky Commission on Human Rights	The Kentucky Commission on Human Rights did not draw federal funds in accordance with immediate needs as required by the Cash Management Act of 1990 and 24 CFR Section 85.20(b)(7).	51	0
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	Cabinet for Health Services	<p>The Cabinet did not have current "Certification Regarding Lobbying" statements on file from each local health department for FYE 6/30/96.</p> <p>According to 7CFR part 3018 section 110, "(a) Each person shall file a certification, and a disclosure, if required, with each submission that initiates agency consideration of such person for: (1) Award of Federal contract, grant, or cooperative agreement exceeding \$100,000; or...." And "(d) any person who requests or receives from a person referred to in paragraphs (a) or (b) of this section...(2) a subgrant, contract, or subcontract exceeding \$100,000 at any tier under a federal grant."</p>	No	0

COMMONWEALTH OF KENTUCKY
SCHEDULE OF NONCOMPLIANCE AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1996
(Continued)

CFDA #	Program Title	State Agency	Noncompliance	Related Comment	Questioned Costs
10.561	State Administrative Matching Grants for Food Stamp Program	Cabinet for Families and Children	<p>We requested 105 Claims Against Households cases from DSI Field Services Offices throughout the State to test for compliance with 7 CFR 273.18 and the Field Services Operation Manual. Of these, we noted 65 instances where DSI Field Service supervisors failed to establish a claim against a household within six months of the discovery date.</p> <p>Due to the length of time it took to establish the claims in the 65 instances noted, 20 claims became eligible for termination by the time they had been established; 15 claims became inactive but were never sent to the Collections Branch; and 14 cases became inactive but were not referred to the Collections Branch in a timely manner for the collection of overpayments.</p> <p>7 CFR 273.18 states "The State agency shall pursue other means of collection, as appropriate, to obtain restitution of a claim against any household...."</p> <p>The Field Services Operation Manual, Volume I, Section 1578 states: "When a benefit reduction case is discontinued, hold the case for 30 days before forwarding to the Collections Branch.... If the case is still inactive after 30 days, refer to the Collections Branch."</p> <p>The Field Services Operation Manual, Volume I, Section 1515, Reporting Claims activity, states: "For FS, by the end of six months from the date the suspected overissuance is first entered on the KCA system complete form FS-400, Claim Determination Report, and send either FS-412, Repayment Request, or FS-413, Intentional Program Violation Repayment Notice, or determine no overissuance exists and update the KCA system."</p>	49	0

COMMONWEALTH OF KENTUCKY
SCHEDULE OF NONCOMPLIANCE AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1996
(Continued)

CFDA #	Program Title	State Agency	Noncompliance	Related Comment	Questioned Costs
10.561	State Administrative Matching Grants for Food Stamp Program	Cabinet for Families and Children	<p>During our review of over-the-counter issuance of food stamps managed by GMc Management Services Corporation (GMc), we noted instances where GMc was not fully complying with contract terms. GMc issued approximately 21% of Food Stamp benefits (\$87,870,414) issued by the State in selected large counties for the year ended June 30, 1996. With such a huge responsibility, it is critical that CFC monitor contract compliance carefully.</p> <p>Because of GMc's failure to comply with contractual provisions and maintain information on food stamp issuance, records were not available for the site manager to determine the beginning balance for the day's issuance. Furthermore, we were forced to perform alternative procedures which lengthened the audit process.</p> <p>Section 40.500, "Termination of Contract" of the State's Contract with GMc, subsection 5 says "State may, at its discretion, at any time during the normal contractor business hours, without advance notice, audit its issuance site(s) and elsewhere for the purpose of ascertaining the amount and value of coupons on hand and otherwise determining the extent of compliance by the contractor with directions issued pursuant thereto...."</p> <p>The Issuance Procedures manual, Section IV., "Procedures and Controls for Issuance of Food Coupons," subsection A. "Daily Opening Procedures," says "The ending inventory verified by the physical count is used for the beginning inventory for the next day."</p>	29	0

COMMONWEALTH OF KENTUCKY
SCHEDULE OF NONCOMPLIANCE AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1996
(Continued)

CFDA #	Program Title	State Agency	Noncompliance	Related Comment	Questioned Costs
10.561	(Continued)		<p>We also noted GMc failed to maintain adequate staffing levels in accordance with contract terms so as to provide needed lunch and comfort breaks to issuance personnel. Failure to maintain adequate staffing levels violates Section III. of the Issuance Procedures manual and increases the risk of food stamp inventory theft.</p> <p>The Issuance Procedures manual, Section III., "Daily Opening and Closing Procedures," subsection B., "Comfort Breaks," says "There must be 2 employees present at all times, therefore, 3 employees are required to provided comfort breaks and lunch."</p>		
10.572	WIC Farmers' Market Nutrition Program	Department of Agriculture	The WIC Farmers' Market Grant Agreements with subrecipients failed to include requirements for compliance with civil rights, drug-free workplace, conflict of interests, and political activity, as required by the WIC Farmers' Market Nutrition Program State Plan..	50	0
15.605	Sport Fish Restoration	Department of Fish and Wildlife Resources	<p>The agency failed to transmit the invoice and payment documents to FAC within 10 working days, and failed to make payment within 30 working days. The agency also failed to add the interest penalty for a delay greater than 30 working days.</p> <p>KRS 45.455 states, "A purchasing agency shall transmit a vendor's approved invoice with required documentation to the Finance and Administration Cabinet within ten (10) working days of receipt of the invoice by the purchasing agency." KRS 45.453 states, "All bills shall be paid within thirty (30) working days of receipt of the vendor's invoice...."</p>	51	0

COMMONWEALTH OF KENTUCKY
SCHEDULE OF NONCOMPLIANCE AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1996
(Continued)

CFDA #	Program Title	State Agency	Noncompliance	Related Comment	Questioned Costs
15.605	(Continued)		In addition, according to KRS 45.454, "An interest penalty of one percent (1%) of any amount approved and unpaid shall be added to the amount approved for each month or fraction thereof after the thirty (30) working days which followed receipt of the vendor's invoice by a purchasing agency."		
17.250	Job Training Partnership Act	Workforce Development Cabinet	Federal reports for FY 96 JQSR (JTPA Quarterly Status Report) 4 th quarter, and the JASDA (JTPA Annual Service Delivery Area Report) did not agree to supporting documentation. Differences totaling \$282,169 and \$136,900, respectively, were due to misapplication of the incentive expenditure amounts. 20 CFR 627.455 requires the use of the U.S. Department of Labor instructions for all financial reports for all JTPA Title II funds.	51	0
17.250	Job Training Partnership Act	Workforce Development Cabinet	OTR failed to issue initial determinations for two of four Service Delivery Areas (SDAs) whose audit reports were received and contained findings. For the remaining two SDAs, one was not issued in a timely manner. OTR had not issued final determinations for any of the five SDA audits that were received. In addition, five of the ten SDA audits were not received until May of 1997. OMB Circular A-128 and the JTPA Financial Management Guide require subrecipient audits to be submitted no later than one year from the end of the audit period. In addition, they require subrecipient audit findings to be resolved within 180 days after the annual independent audit report is received.	50	0

COMMONWEALTH OF KENTUCKY
SCHEDULE OF NONCOMPLIANCE AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1996
(Continued)

CFDA #	Program Title	State Agency	Noncompliance	Related Comment	Questioned Costs
66.458	Capitalization Grants for State Revolving Funds	Kentucky Infrastructure Authority	<p>The Authority does not have current audit reports on file for all subrecipients who have received loans from the U.S. Environmental Protection Agency State Revolving Fund Program.</p> <p>The Authority is required to maintain a system to monitor subrecipients and obtain and act on subrecipient audit reports.</p> <p>Without current audit reports on file, the Authority may not be able to effectively monitor all subrecipients who have received loans from the State Revolving Fund Program.</p> <p>The Authority has requested but not yet received current audit reports from 23 of the 68 subrecipients who have received loans from the State Revolving Fund Program.</p>	No	0
83.516	Disaster Assistance	Department of Military Affairs	<p>The Division of Disaster and Emergency Services did not review the audit reports of all subrecipients to which it disbursed \$25,000 or more in federal financial assistance. The agency also did not track the date audit reports were due or ensure that appropriate action was taken for any noncompliances noted in a subrecipient's audit report within six months after receipt of the report. Moreover, the agency did not receive or review reports in a timely manner. The above findings are in noncompliance with the Single Audit Act, Section 7502(6), and OMB Circular A-128, Section 9(c).</p>	33	0
83.516	Disaster Assistance	Department of Military Affairs	<p>The Division of Disaster and Emergency Services did not adhere to monitoring procedures as outlined in the State Administrative Plan for the Public Assistance Program, specifically:</p>	33	0

COMMONWEALTH OF KENTUCKY
SCHEDULE OF NONCOMPLIANCE AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1996
(Continued)

CFDA #	Program Title	State Agency	Noncompliance	Related Comment	Questioned Costs
83.516	(Continued)		<ol style="list-style-type: none"> 1. Not all audit reports were reviewed in accordance with the "Desk Review Guide for Single Audits" or the "Desk Review Guide for Program Audits" (Section XX, A.3); 2. Three instances were noted where DES Form 508 was not on file for small projects (Section XVII, A.3); 3. Follow-up had not yet been done on problems noted during site visits (Section XVII, D.3); and 4. Progress reports for large projects had not been received quarterly from the subrecipients (Section XVII, J.1). 		
83.516	Disaster Assistance	Department of Military Affairs	One federal financial report (PMS 272) was not submitted within 45 days after the end of the quarter, as required by the instructions included with the report. The report for the quarter ending 9/30/95 was not submitted until 12/7/95.	No	0
83.516	Disaster Assistance	Department of Military Affairs	Kick-backs were received by a Johnson County official and county road employees in the letting of contracts under Disasters 1055 and 1089. Restitution has been ordered by the courts.	No	22,803
84.032	Federal Family Education Loans - Interest Benefit and Federal Special Allowance	Kentucky Higher Education Student Loan Corporation	For one of the quarterly form 799's selected in our review of compliance with the U.S. Department of Education reporting guidelines, the Corporation recorded the principal amount of two loans within part II of the September 30, 1995 form twice due to manual adjustments made to the student loan servicing system report. As a result, the Corporation overstated the principal amount of the loan balances by \$1,313 and \$2,000 for loan types TG (subsidized Stafford) and TU (unsubsidized Stafford), respectively. The Corporation improperly billed the U.S. Department of Education \$115.96 for origination and lender fees pertaining to the overstated principal on these loans.	No	116

COMMONWEALTH OF KENTUCKY
SCHEDULE OF NONCOMPLIANCE AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1996
(Continued)

CFDA #	Program Title	State Agency	Noncompliance	Related Comment	Questioned Costs
84.048 and 84.169	Vocational Education - Basic Grants to States Independent Living - State Grants	Workforce Development Cabinet	The Workforce Development Cabinet's Department of Vocational Rehabilitation, Department for the Blind, and the Department of Technical Education's procedures were not adequate to ensure subrecipients' independent audits were performed in accordance with applicable federal regulations governing the distribution of funds. The Departments did not have a comprehensive tracking system to ensure that the quality control review (desk review) of subrecipients' independent audit reports were performed and that any questioned costs, internal control weaknesses, Schedule of Federal Financial Assistance errors, or other audit exceptions had appropriate corrective action taken in a timely manner. The Single Audit Act of 1984 requires Departments ensure subrecipients comply with the applicable federal regulations. Those regulations require the oversight unit to establish a system to ensure that audits of the subrecipients meet the requirements of OMB Circular A-128 or A-133. The system should include a quality control review of each subrecipient audit report.	No	0
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States	Workforce Development Cabinet	The Department of Vocational Rehabilitation did not have a control procedure to ensure federal reports were submitted within the specified time required by the federal grantor. During our review of 11 Financial Status Reports (FSR-269), the Annual Report on Post-Employment Services and Annual Review (RSA-62), and the Annual Case Service Report (RSA-911), we noted 4 FSR-269's, filed as late as 107 days; the annual RSA-62, 14 days late; and the annual RSA-911, 47 days late. Federal Policy Directives require each report to be filed within a specific time.	No	0

COMMONWEALTH OF KENTUCKY
SCHEDULE OF NONCOMPLIANCE AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1996
(Continued)

CFDA #	Program Title	State Agency	Noncompliance	Related Comment	Questioned Costs
93.561	Job Opportunities and Basic Skills Training	Workforce Development Cabinet	During our review of the internal controls relating to payroll expenditures, we noted an employee's time had been charged incorrectly to the Federal Fund. The employee terminated during the period and had charges to more than one fund. While the timesheet was correct, charges were not properly distributed to the correct programs, resulting in an overcharge of \$33 to the federal program. Therefore, the program did not receive a benefit for the related overcharge. OMB Circular A-87, Attachment A, Section C, Number 2(a), requires a cost to be allocated to a particular cost objective to the extent of benefits received by such objective.	No	33
93.561	Job Opportunities and Basic Skills Training	Cabinet for Families and Children	<p>During our testing of JOBS federal reports, we noted the Participation Rate Report (ACF-103) and the Job Opportunities and Basic Skills Training Program Report of IV-F Expenditures (ACF-332) were both filed subsequent to the due date.</p> <p>The federal JOBS Action Transmittals require the ACF-103 be filed within 45 days after the end of the quarter and the ACF-332 be filed within 30 days after the end of the quarter.</p>	No	0
93.561	Job Opportunities and Basic Skills Training	Cabinet for Families and Children	<p>We examined CFC's monitoring of the 15 Area Development Districts. DSI failed to document monitoring for 4 of the 15 ADDs for the year ended June 30, 1996. In addition, DSI failed to monitor any of the funds passed through to the Workforce Development Cabinet.</p> <p>OMB Circular A-128 and DSI's policy require monitoring of subrecipients be performed every year in order to ensure proper use of federal and state funds.</p>	50	0

COMMONWEALTH OF KENTUCKY
SCHEDULE OF NONCOMPLIANCE AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1996
(Continued)

CFDA #	Program Title	State Agency	Noncompliance	Related Comment	Questioned Costs
93.561	Job Opportunities and Basic Skills Training	Cabinet for Families and Children	<p>In our review of Supportive Services' payments to JOBS participants, we noted the following types of exceptions with transportation payments:</p> <ul style="list-style-type: none"> - Five case files were not located. - Seven payments were for the final transportation payment, paid in advance, but the number of days actually attended could not be verified. - Two payments did not contain a signature from a school official to verify attendance. - One payment had the incorrect number of days requested on the PA-33. - Two PA-33's were blank for the number of days requested. - Eight payments were for advance transportation payments; however, the anticipated attendance did not equal the attendance reported by the school. <p>No overpayment recoveries were made for any of the instances noted above.</p> <p>45 CFR 92.20 (a) (2) states, "Fiscal control and accounting procedures of the State...must be sufficient to permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes."</p> <p>45 CFR 92.42 (b) (1) states, "...records must be retained for three years from the starting date specified in paragraph (c)." OMB Circular A-87, Attachment A, Paragraph C requires allowable costs to be supported by underlying documentation.</p> <p>45 CFR 255.4 (j) (1) states, "The State must take all reasonable steps necessary to promptly correct any overpayments to a recipient or service provider."</p>	9	1,157

COMMONWEALTH OF KENTUCKY
SCHEDULE OF NONCOMPLIANCE AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1996
(Continued)

CFDA #	Program Title	State Agency	Noncompliance	Related Comment	Questioned Costs
93.561	Job Opportunities and Basic Skills Training	Cabinet for Families and Children	<p>In our review of Supportive Services' payments to JOBS participants, we noted two instances where files containing Authorization for Supportive Services Payments (PA-32's) could not be located.</p> <p>OMB Circular A-87, Attachment A, Paragraph C requires allowable costs to be supported by underlying documentation.</p>	49	137
93.563	Child Support Enforcement	Cabinet for Families and Children	<p>We tested DCSE procedures for monitoring county attorneys' audits and noted:</p> <ul style="list-style-type: none"> - Three county attorneys did not submit FY 95 audit reports; three audit reports from FY 94 had not been submitted; and five county attorneys had not submitted FY 93 reports. Included in these were Adair, Floyd, and Magoffin counties which had not submitted an audit report for FY 93, FY 94, or FY 95. - Twenty county attorneys did not submit audit reports by the due date. - Six county attorneys did not advise DCSE within 30 days of the corrective action to be taken to correct exceptions. - Five county attorneys submitting late audit reports were not sent reminder letters. <p>Also, during our testing of DCSE's procedures for monitoring compliance analysts' reports, we found that program compliance reviews were not performed during FY 96.</p> <p>OMB Circular A-128 requires the State to ensure its subrecipients spend federal assistance funds in accordance with applicable laws and regulations. Appropriate corrective action should be taken within six months after receipt of the audit report in instances of noncompliance with federal laws and regulations.</p>	50	0

COMMONWEALTH OF KENTUCKY
SCHEDULE OF NONCOMPLIANCE AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1996
(Continued)

CFDA #	Program Title	State Agency	Noncompliance	Related Comment	Questioned Costs
93.563	Child Support Enforcement	Cabinet for Families and Children	<p>DCSE contracted for the performance of desk reviews of county attorney financial audits. DCSE did not require documentation of the reviews in a timely manner. Eighteen audits were not reviewed within six months, and thirteen audits could not be located by the contractor.</p> <p>OMB Circular A-128 requires the State to ensure that appropriate corrective action is taken within six months after receipt of the audit report in instance of noncompliance with federal laws and regulations.</p>	50	0
93.568	Low-Income Home Energy Assistance	Cabinet for Families and Children	<p>The DSI Energy Assistance Branch subcontracts with the Kentucky Association of Community Action Agencies (KACA) to administer the energy assistance component of LIHEAP. KACA then contracts directly with Community Action Agencies (CAAs). During our review of DSI's monitoring of KACA, we noted that KACA failed to monitor the CAAs during the State fiscal year when monitoring could have been beneficial to the program. Although KACA monitored the CAAs after the subgrant period, KACA did not provide written monitoring reports to the Energy Assistance Branch within two weeks of its monitoring efforts.</p> <p>KACA also failed to submit completed and accurate monitoring reports to DSI for several CAAs and failed to develop a schedule of monitoring visits planned for each subcontractor.</p> <p>Page 2g, Paragraph 1.28 of DSI's contract with KACA states that DSI will monitor each subcontractor at least once after program implementation to assure the appropriate delivery of services and documentation of case actions and billings under the contract.</p>	26	0

COMMONWEALTH OF KENTUCKY
SCHEDULE OF NONCOMPLIANCE AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1996
(Continued)

CFDA #	Program Title	State Agency	Noncompliance	Related Comment	Questioned Costs
93.568	(Continued)		<p>KACA will provide the Cabinet with a written monitoring report, within two weeks of monitoring a subcontractor, which shall include a description of any problems identified and the corrective actions to be taken. DSI will follow up on all corrective actions and report the resolution to the Cabinet. KACA shall develop a schedule showing the date of each monitoring visit for each subcontractor and provide this schedule to the Cabinet prior to its implementation.</p> <p>DSI did not receive copies of the 2 percent energy assistance case review summaries which CAA supervisors were supposed to submit to KACA each week. Therefore, DSI could not ensure that KACA was reviewing the summaries or that the CAAs were performing the reviews.</p> <p>Section 2.3 of DSI's contract with KACA states that DSI will monitor the activities performed pursuant to this contract. Section 1.29 states that KACA will assure that each week the chief executive officer or designee of each subcontractor will review a minimum of 2 percent of all cases to assure appropriate case activity. Summaries of the cases reviewed and problems identified shall be provided to DSI for immediate review so that DSI may take appropriate action to resolve any problems identified and to ensure the appropriate number of cases were reviewed.</p> <p>DSI's energy assistance contract with KACA required the timely submission of delegate agreements and amendments. Two delegate agreements and/or amendments were never received.</p>		

COMMONWEALTH OF KENTUCKY
SCHEDULE OF NONCOMPLIANCE AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1996
(Continued)

CFDA #	Program Title	State Agency	Noncompliance	Related Comment	Questioned Costs
93.568	(Continued)		<p>Section 1.4 of DSI's contract with KACA states that copies of each subcontract and all amendments to each subcontract shall be submitted to the Cabinet within five working days after they have been signed by all parties.</p> <p>As part of our testing of DSI's subrecipient audit report tracking system over KACA and the CAAs, we noted three CAAs had 1993 audits in process and five CAAs had 1994 audits in process. As a result, DSI did not meet deadlines for these audits as required by OMB Circular A-128.</p> <p>OMB Circular A-128 Section 13 (f) states, "The reports shall be sent within 30 days after the completion of the audit, but no later than one year after the end of the audit period. . . ."</p>		
93.568	Low-Income Home Energy Assistance	Cabinet for Families and Children	<p>DSI's Energy Assistance Branch did not perform weatherization contract and fiscal reviews of six CAAs.</p> <p>OMB Circular A-128 requires the grantor ensure that subrecipients are being properly monitored.</p>	26	0
93.568	Low-Income Home Energy Assistance	Cabinet for Families and Children	During our review of the Statistics Report submitted to the federal government, we noted that the report contained estimated data instead of actual.	No	0

COMMONWEALTH OF KENTUCKY
SCHEDULE OF NONCOMPLIANCE AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1996
(Continued)

CFDA #	Program Title	State Agency	Noncompliance	Related Comment	Questioned Costs
93.568	(Continued)		DSI was not in compliance with 42 USC 8624 (c) (1) (G) which states that the State shall submit "the number and income level of households which apply and the number which are assisted with funds provided under this subchapter, and the number of households so assisted with -- (i) one or more members who has attained 60 years of age; (ii) one or more members who are disabled; and (iii) one or more young children. . . ."		
93.575	Child Care and Development Block Grant	Cabinet for Families and Children	<p>When testing CCDBG subrecipient audit reports for the year ended June 30, 1996, we noted nine audit reports were not received timely; 14 findings and questioned costs may not have been addressed in a closure letter; 14 appropriate actions may not have been taken for deficiencies; and 14 findings and questioned costs may not have been resolved within six months of receipt of the report.</p> <p>The majority of the weaknesses resulted from seven audit reports which could not be located; six closure letters which could not be located in the audit report folders; and two draft audit reports which were received more than 13 months after the year end.</p> <p>OMB Circular A-128 requires the Cabinet to ensure the subrecipients have met the audit requirements of A-128; determine whether the subrecipient spent federal assistance funds provided in accordance with applicable laws and regulations; and ensure appropriate corrective action is taken within six months after receipt of the audit report in instances of noncompliance with federal laws and regulations.</p>	27	0

COMMONWEALTH OF KENTUCKY
SCHEDULE OF NONCOMPLIANCE AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1996
(Continued)

CFDA #	Program Title	State Agency	Noncompliance	Related Comment	Questioned Costs
93.658	Foster Care - Title IV-E	Cabinet of Families and Children	<p>We tested the Title IV-E Foster Care case files for compliance with federal regulations concerning eligibility and we noted the following exceptions:</p> <ul style="list-style-type: none"> - Case workers were delinquent in performing the six month eligibility redetermination in two of 54 case files examined. Public Law 96-272, Section 475(5)(B) of Part E requires eligibility to be redetermined every six months. - Three cases of 56 examined contained no DSS-111A's. The DSS Program Manual, Chapter IV, Out of Home Care Section, says that the DSS-111A brings the Foster Home Contract into effect for a particular child. - Three cases of 56 examined contained DSS-111A's in which the rate had not been updated to reflect changes in the cases, such as age of child, additions of training and sibling incentive, and special needs. In these cases, DSS-110's were issued which had a higher rate than the one indicated on the DSS-111A. The DSS Program Manual, Chapter IV, Out of Home Care Section requires the DSS-111A be updated for changes in the rate. 	49	459
93.667	Social Services Block Grant	Cabinet for Families and Children	<p>DSS, as a primary recipient of federal funds, makes subcontracts or subawards to subrecipients. As the oversight department, DSS must ensure subrecipients are complying with applicable federal regulations governing the funds distributed. These federal regulations require audit reports and schedules containing specific types of information and opinions. Part of the oversight function is to ensure auditors are submitting audit reports which comply with federal regulations. This could be accomplished by developing an adequate tracking system and using an audit review guide which would assist in identifying any deficiencies in the audit report. We tested the oversight of their subrecipient monitoring and noted the following exceptions:</p>	27	0

COMMONWEALTH OF KENTUCKY
SCHEDULE OF NONCOMPLIANCE AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1996
(Continued)

CFDA #	Program Title	State Agency	Noncompliance	Related Comment	Questioned Costs
93.667	(Continued)		<ul style="list-style-type: none"> - The tracking system used by the DSS Contracts Branch in reviewing subrecipient audit reports did not include recording the date the audit was received, thus making it difficult to determine if the report was submitted timely. - For audits reviewed, DSS did not use an accepted review guide to ensure the consistency and completeness of the audit review process. - Six of seven audit reports tested, relating to Day Treatment and Chapter I services provided, had not been reviewed. Two of the seven reports included incorrect CFDA numbers, and one failed to include SSBG on its Schedule of Federal Financial Assistance. <p>OMB Circular A-128 requires the State to ensure its subrecipients spend federal assistance funds in accordance with applicable laws and regulations. Appropriate corrective action should be taken within six months after receipt of the audit report in instances of noncompliance with federal laws and regulations.</p>		
93.667	Social Services Block Grant	Cabinet for Families and Children	During our testing of subrecipient monitoring, we noted CFC had not monitored the Day Treatment and Chapter I program contracts. Since this monitoring was not performed, the actual days of service paid for by CFC could not be reconciled to the actual number of days service was provided. Therefore, CFC could not determine whether its subrecipients were in compliance with federal regulations. Additionally, the reports documenting the monitoring results were required to close the audits. Hence, the audit reports of subrecipients providing the Day Treatment and Chapter I services have yet to be reviewed or closed.	28	0

COMMONWEALTH OF KENTUCKY
SCHEDULE OF NONCOMPLIANCE AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1996
(Continued)

CFDA #	Program Title	State Agency	Noncompliance	Related Comment	Questioned Costs
93.667	(Continued)		OMB Circular A-128 requires the State to ensure the subrecipient spent federal assistance in accordance with applicable laws and regulations.		
93.778	Medical Assistance Program	Cabinet for Health Services	<p>As part of post payment utilization review, the required number of active Medicaid recipient cases were not opened for two quarters within the State's fiscal year ended June 30, 1996. Based on federal guidelines, SURS was required to review 64 recipient cases for the second federal quarter (January-March 1996) and third federal quarter (April-June 1996). However, SURS only reviewed 60 recipient cases in each of the quarters noted above.</p> <p>The Health Care Financing Administration's System Performance Review guidelines require that for each federal quarter, the State must review at least 0.01 percent of the total body of active recipients. The minimum case requirements are based upon the unduplicated number of active recipients for the previous year from the most recent HCFA-2082 report.</p>	48	0
93.778	Medical Assistance Program	Cabinet for Health Services	<p>During the conversion period between fiscal agents (Electronic Data Systems to Unisys), third-party liability information in the MMIS was overlaid with "no data" for approximately 1,549 recipients.</p> <p>42 CFR 433.135-154 requires a system that takes reasonable measures to identify medical services that are the legal obligation of liable third parties, such as private health or accident insurers, and exhausts such third-party resources before paying the related claims or seeks reimbursement from the third parties where the liability is established after the claim is paid.</p>	2	465,022

COMMONWEALTH OF KENTUCKY
SCHEDULE OF NONCOMPLIANCE AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1996
(Continued)

CFDA #	Program Title	State Agency	Noncompliance	Related Comment	Questioned Costs
93.778	Medical Assistance Program	Cabinet for Health Services	<p>We compared end-dates obtained from the Kentucky Board of Pharmacy to end-dates in the MMIS for 58 pharmacies. Of the 58 pharmacies, 4 were name changes, 15 were ownership changes, and 39 were pharmacy closures. Our tests indicated the following:</p> <ul style="list-style-type: none"> * Two pharmacies did not have their new names updated in the MMIS. * Thirteen pharmacies did not receive a new provider number nor have their old provider number end-dated in the MMIS. This was based on the fact that we could not determine from either the Kentucky Board of Pharmacy or from DMS whether a new tax identification number was issued. * Thirty-three pharmacies did not have their end-dates updated in the MMIS when they closed. * DMS paid claims during our audit period on 4 of the 33 closed pharmacies when the date of service of the claim was after the date that the pharmacy's license had expired. <p>DMS' Pharmacy Manual, page 3.1, specifies that "Any pharmacy holding an operation permit from the Board of Pharmacy in the state in which the pharmacy is located may participate in the Kentucky Medicaid." Additionally, 42 CFR 455.104(d) states, "FFP is not available to payments made to a provider or fiscal agent that fails to disclose ownership or control information as required by this section." 907 KAR 1.672, Section 3 (4) states, "The provider shall file an amended, signed ownership and disclosure form with the department within thirty-five (35) days from the change in the following: (a) Ownership or control; (b) The managing employee or management company; or (c) A provider's federal tax identification number."</p>	48	2,856

COMMONWEALTH OF KENTUCKY
SCHEDULE OF NONCOMPLIANCE AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1996
(Continued)

CFDA #	Program Title	State Agency	Noncompliance	Related Comment	Questioned Costs
93.778	Medical Assistance Program	Cabinet for Health Services	<p>The Rebate Billing Statements to drug manufacturers for quarter ending 12/31/95 were mailed 14 days late. Also, we noted one drug labeler that did not receive a Rebate Billing Statement for quarter ending 3/31/96 even though the Labeler Quarter Detail Screen reflected a “billed amount” of \$4.83.</p> <p>Title XIX of the Social Security Act as amended by the Omnibus Budget Reconciliation Act of 1990 states, “Section 1927(b)(2)(A) State Responsibility. – Each State agency under this title shall report to each manufacturer not later than 60 days after the end of each calendar quarter . . . information on the total number of dosage units of each covered outpatient drug dispensed under the plan during the quarter....”</p>	17	0
93.778	Medical Assistance Program	Cabinet for Health Services	<p>We tested 18 nursing facilities and 20 Waiver facilities to ensure that they met applicable federal health, safety, and quality standards. Medicaid nursing facilities and Waiver home health facilities were deemed to have met applicable federal health, safety, and quality standards if the results of the standard surveys are satisfactory. Of those 38 facilities, 4 nursing facilities and 6 Waiver home health facilities did not have a standard survey performed within 15 months after the date of the previous survey. Management has indicated it had conducted an extensive analysis of the distribution of workload among the four regional offices and has redrawn the regional boundaries to facilitate timely surveys.</p> <p>42 USC Sec. 1396r(g)(2)(A)(iii)(I) states, “Each nursing facility shall be subject to a standard survey not later than 15 months after the date of the previous standard survey . . .”</p> <p>42 USC Sec. 1395bbb(c)(2)(A) states, “. . .each home health agency shall be subject to a standard survey not later than 15 months after the date of the previous standard survey . . .”</p>	21 48	125,176

COMMONWEALTH OF KENTUCKY
SCHEDULE OF NONCOMPLIANCE AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1996
(Continued)

CFDA #	Program Title	State Agency	Noncompliance	Related Comment	Questioned Costs
93.778	Medical Assistance Program	Cabinet for Health Services	We noted instances where claims were paid for drugs with service dates after the termination date. HCFA Release #19 (May 1992) states, "Please ensure that your state processing system can correctly handle terminated drugs based on the following: (1) The 'termination date' is the actual date the shelf life ends (for any NDC . . . (2) The termination date (by NDC) is included on the pricing tape/data cartridge sent to you quarterly. . . (3) You must maintain this date and ASSURE that claims submitted by pharmacies are NOT for drugs dispensed AFTER the termination date. These should be rejected as invalid since these drugs cannot be dispensed after this date. If you find that the manufacturer's termination date is incorrect (e.g., a pharmacist has stock with an expiration date later than what the manufacturer stated), please notify us."	48	68,205
93.778	Medical Assistance Program	Cabinet for Health Services	<p>The AIS/MR Waiver Agreement requires providers to be certified annually. Our testing of 45 providers disclosed 9 providers that were not certified timely.</p> <p>DMS obtained a waiver from the federal government based on criteria established in the Waiver Agreement. The AIS/MR services manual (pages 3.5 and 3.6) states, "Providers who are not certified, shall not be reimbursed by Kentucky Medicaid . . . The Kentucky Medicaid Program may terminate a provider agreement for participation based on noncompliance with all applicable requirements. Prior to recommendation of certification of any provider, the DLR shall conduct a survey to determine compliance with the AIS/MR program requirements . . . A recertification survey is conducted by the DLR within six (6) months of the initial survey and annually thereafter. Only those providers that retain certification shall be permitted to continue to serve AIS/MR clients."</p>	21	120,760

COMMONWEALTH OF KENTUCKY
SCHEDULE OF NONCOMPLIANCE AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1996
(Continued)

CFDA #	Program Title	State Agency	Noncompliance	Related Comment	Questioned Costs
93.994	Maternal and Child Health Services Block Grant to the States	Cabinet for Health Services	<p>The Division of Maternal and Child Health Services authorized payment for a project to a University at year end, without supporting documentation. The interaccount stated that supporting documentation would follow. However, the University did not submit the supporting documentation, and the Division did not follow up to obtain the information.</p> <p>45 CFR Part 96.30 requires states to maintain fiscal control and accounting procedures sufficient to “ . . . permit the tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of the statute authorizing the block grant.”</p>	23	0
96.001	Social Security - Disability Insurance	Cabinet for Health Services and Cabinet for Families and Children	<p>One Monthly Obligation Report was filed two days late. Two CEMS Reports were filed one day late.</p> <p>Federal policy, as stated in the Program Operations Manual System, requires the Monthly Obligation Report to be filed within 20 days after the end of the report month. The CEMS Report is required to be filed within 45 days after the end of the quarter.</p>	No	0

COMMONWEALTH OF KENTUCKY
SCHEDULE OF NONCOMPLIANCE AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1996
(Continued)

CFDA #	Program Title	State Agency	Noncompliance	Related Comment	Questioned Costs
<u>NONCOMPLIANCES RELATING TO STATE PROGRAMS</u>					
NA	State Compliance - Capital Projects	Finance and Administration Cabinet - Department for Facilities Management	Two change orders for capital construction contracts did not contain sufficient justification for changes. 200 KAR 5:311 Section 2 and FAC Policy BO-111-11-00 require that the reason for change must be fully supported and documented.	37	0
NA	State Compliance - Capital Projects	Finance and Administration Cabinet -Department for Facilities Management	Three expenditure documents were approved by individuals whose signature card did not indicate authority to sign that particular document. Also, one expenditure document was approved by an individual with no signature card on file. KRS 45.251 and FAC Policy BO-120-12-00 require signature cards to be on file for person(s) authorized to sign documents.	37	0
NA	State Compliance - Capital Projects	Finance and Administration Cabinet - Department for Facilities Management	We noted two instances where more than 20 working days had elapsed between the Department for Facilities Management's receipt of an approved invoice and the transmittal of a warrant to the State Treasury by FAC. KRS 45.456 requires FAC to transmit a warrant to the State Treasury within 20 working days of receipt of a vendor's invoice. In both of these cases, no interest penalty was added to the amount paid even though the vendor was not paid within 30 days as required by KRS 45.454.	37	0
NA	State Compliance - Capital Projects	Finance and Administration Cabinet - Department for Facilities Management	Two instances were noted in which the Department for Facilities Management did not date stamp invoices when received. FAC Policy BO-120-05-00, which is incorporated into regulation via 200 KAR 5:201, requires all invoices received to be stamped with the date and agency name.	37	0

COMMONWEALTH OF KENTUCKY
SCHEDULE OF NONCOMPLIANCE AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1996
(Continued)

CFDA #	Program Title	State Agency	Noncompliance	Related Comment	Questioned Costs
NA	State Compliance - Capital Projects	Finance and Administration Cabinet - Department for Facilities Management	We noted one instance in which the lowest bidder awarded a capital construction contract did not meet the requirements of the Invitation to Bid. 200 KAR 5:306 requires that bidders complete, execute and submit their bids in strict compliance with the instructions contained in the Invitation for Bids, and any bid which does not conform to the specifications contained or referenced in any Invitation for Bids shall be rejected unless the Invitation authorized the submission of alternate bids and the items offered as alternatives meet the requirements specified in the Invitation. FAC Policy BO-111-34-00 states that contracts are to be awarded to the lowest responsive qualified bidder meeting all specifications and conditions of the Invitation for Bid.	37	0
NA	State Compliance - Expenditures	Finance and Administration Cabinet - Department for Administration and Department for Facilities Management	Seven instances of split purchases were found during our review of expenditures. KRS 45A.100 and FAC Policy Number BO-111-55-00 stipulate that procurements shall not be parceled, split, divided, or purchased over a period of time to meet the dollar limitations of the small purchase regulations.	37	0
NA	State Compliance - Expenditures	Finance and Administration Cabinet - School Facilities Construction Commission	The maximum annual repayment exceeded the SFCC's offer of assistance for one school district. 750 KAR 1:010, Section 7, paragraph (4)(a) states the maximum annual repayment amount shall not exceed the offer of assistance.	No	0
NA	State Compliance - Expenditures	Finance and Administration Cabinet - Office of Controller	FAC did not conduct periodic physical audits of inventories as required by KRS 45A.045(5).	56	0

COMMONWEALTH OF KENTUCKY
SCHEDULE OF NONCOMPLIANCE AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1996
(Continued)

CFDA #	Program Title	State Agency	Noncompliance	Related Comment	Questioned Costs
NA	State Compliance - Temporary Deposit Accounts	Cabinet for Families and Children and Cabinet for Health Services	CFC and CHS did not comply with KRS 41.070(3) as it relates to the approval of temporary deposit accounts by FAC. KRS 41.070(3) states “. . . The State Treasurer, with the approval of the Finance and Administration Cabinet, may authorize . . . agencies to deposit receipts directly with a depository designated by the Treasury . . .”	No	0
NA	State Compliance - Personal Service Contracts	Cabinet for Health Services	<p>The Commission for Children with Special Health Care Needs obtained contracts with physicians to provide services for children under their care. The Commission used its own “Memorandum of Agreement” instead of Personal Service Contracts.</p> <p>KRS 45A.695 requires a personal service contract be on file with the Legislative Research Commission.</p> <p>KRS 45A.690(1)(d) defines a personal service contract as “. . . an agreement whereby an individual, firm, partnership or corporation is to perform certain duties, professional or otherwise, for a specified period of time for a price agreed upon which is exempt from competitive bidding . . .”</p>	No	0

COMMONWEALTH OF KENTUCKY
SCHEDULE OF NONCOMPLIANCE AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1996
(Continued)

CFDA #	Program Title	State Agency	Noncompliance	Related Comment	Questioned Costs
N/A	State Compliance - Kentucky Administrative Requirements	Cabinet for Health Services	Provider files in the Department for Medicaid Services did not contain all required documents. Of the 25 provider files tested, the following documents were missing: 1 provider Agreement, 1 Disclosure of Ownership Interest Statement, 1 Electronic Transfer Addendum, and 6 current provider licenses. 907 KAR 1:760 Sec. 2 states, "(4)(a) All applicants for participation shall complete a provider agreement disclosure of ownership and control interest statement ... proof of a currently valid license . . ."	48	0
N/A	State Compliance - Receipts	Revenue Cabinet	The Cabinet received approximately \$30 million in individual income tax declarations in September 1995. These receipts were not deposited until October 1995. Due to the delay in depositing these receipts, interest was lost. KRS 41.070 states, "...all revenue collected from the state...shall be deposited in state depositories in the most prompt and cost-efficient manner available."	No	0
TOTAL QUESTIONED COSTS					<u>\$ 884,115</u>

COMMONWEALTH OF KENTUCKY
STATUS OF PRIOR YEAR QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1996

CFDA #	Program Title	State Agency	Audit Period	Amount	Current Status	
					Unresolved	Resolved
NA	Statewide Cost Allocation Plan	Finance and Administration Cabinet - Department for Administration	FYE 6-30-92	\$ 2,925	X	
NA	Joint Funding Administration, U.S. Department of Labor Programs, U.S. Department of Health and Human Services Programs, U.S. Department of Agriculture Programs, U.S. Department of Transportation Programs, U.S. Department of Justice Programs, and Other Agencies' Programs	Department for Local Government and Cabinet for Families and Children and Cabinet for Health Services				
	Relating to the Lake Cumberland ADD		FYE 6-30-92	473,364 Federal 93,119 State		X X
	Relating to the Barren River ADD		FYE 6-30-93	864,555 Federal 252,547 State		X X
	Relating to the Lincoln Trail ADD		FYE 6-30-93	416,733 Federal 151,594 State		X X

COMMONWEALTH OF KENTUCKY
STATUS OF PRIOR YEAR QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1996
(Continued)

CFDA #	Program Title	State Agency	Audit Period	Amount	Current Status	
					Unresolved	Resolved
	Relating to the FIVCO ADD		FYE 6-30-93	270,442 Federal 71,448 State		X X
	Relating to the Kentuckiana ADD		FYE 6-30-93	45,746 Federal 74,541 State		X X
	Relating to Northern Kentucky ADD		FYE 6-30-93	25,317 Federal 746 State		X X
NA	Multiprograms	Cabinet for Families and Children and Cabinet for Health Services and Workforce Development Cabinet	FYE 6-30-93	372,383	X	
NA ,	Multiprograms	Cabinet for Families and Children and Cabinet for Health Services	FYE 6-30-95	7,959		X
14.855 and 14.857	Section 8 Rental Voucher Program Section 8 Rental Certificate Program	Kentucky Housing Corporation	FYE 6-30-95	6,141		X
15.250 and 15.252	Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining Abandoned Mine Land Reclamation (AMLR) Program	Natural Resources and Environmental Protection Cabinet	FYE 6-30-94	5,330		X

COMMONWEALTH OF KENTUCKY
STATUS OF PRIOR YEAR QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1996
(Continued)

CFDA #	Program Title	State Agency	Audit Period	Amount	Current Status	
					Unresolved	Resolved
15.252	Abandoned Mine Land Reclamation (AMLR) Program	Natural Resources and Environmental Protection Cabinet				
	Relating to Loftis Project (The amount of questioned costs was originally reported in FY 94 & FY 95 as \$12,877.)		FYE 6-30-94 6-30-95	11,356		X
	Relating to Mullins Mine Project		FYE 6-30-94	14,819		X
	Relating to Birchfield I Project (The amount of questioned costs was originally reported in FY 94 as \$50,568. Questioned costs of \$21,477 reported in FY 95 were included in the FY 94 questioned costs above.)		FYE 6-30-94 6-30-95	43,108 21,477		X X
	Relating to Birchfield II Project		FYE 6-30-94	9,088		X
17.250	Job Training Partnership Act	Workforce Development Cabinet	FYE 6-30-92	666,090	X	
17.250	Job Training Partnership Act	Workforce Development Cabinet	FYE 6-30-93	48,315		X
17.250	Job Training Partnership Act	Workforce Development Cabinet	FYE 6-30-93	1,592		X
17.250	Job Training Partnership Act	Workforce Development Cabinet	FYE 6-30-93	2,538		X
17.250	Job Training Partnership Act	Workforce Development Cabinet	FYE 6-30-93	58,493		X

COMMONWEALTH OF KENTUCKY
STATUS OF PRIOR YEAR QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1996
(Continued)

CFDA #	Program Title	State Agency	Audit Period	Amount	Current Status	
					Unresolved	Resolved
17.250	Job Training Partnership Act	Workforce Development Cabinet	FYE 6-30-93	236		X
93.561	Job Opportunities and Basic Skills Training Program	Cabinet for Families and Children	FYE 6-30-95	3,735	X	
93.561	Job Opportunities and Basic Skills Training Program	Workforce Development Cabinet	FYE 6-30-95	932		X
93.563	Child Support Enforcement	Cabinet for Families and Children	FYE 6-30-93	23		X
93.568	Low-Income Home Energy Assistance Program	Cabinet for Families and Children	FYE 6-30-95	196,070		X
93.575	Child Care and Development Block Grant	Cabinet for Families and Children	FYE 6-30-95	4,537	X	
93.658	Foster Care - Title IV-E	Cabinet for Families and Children	FYE 6-30-95	2,422	X	
93.658	Foster Care - Title IV-E	Cabinet for Families and Children	FYE 6-30-95	10,082	X	
93.667	Social Services Block Grant	Cabinet for Families and Children	FYE 6-30-94	852		X
93.667	Social Services Block Grant	Cabinet for Families and Children	FYE 6-30-94	1,566		X

COMMONWEALTH OF KENTUCKY
STATUS OF PRIOR YEAR QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1996
(Continued)

CFDA #	Program Title	State Agency	Audit Period	Amount	Current Status	
					Unresolved	Resolved
93.667	Social Services Block Grant	Cabinet for Families and Children	FYE 6-30-95	5,596		X
93.673	Grants to States for Planning and Development of Dependent Care Programs	Department of Education	FYE 6-30-95	11		X
93.778	Medical Assistance Program (The amount of questioned costs was reported in the FY 95 Status of Prior Year Questioned Costs as \$1,508,493.)	Cabinet for Health Services	FYE 6-30-93	1,560,493	X	
93.778	Medical Assistance Program	Cabinet for Health Services	FYE 6-30-93	700,652		X
93.778	Medical Assistance Program	Cabinet for Health Services	FYE 6-30-94	134,792	X	
93.778	Medical Assistance Program	Cabinet for Health Services	FYE 6-30-94	666,552		X
93.778	Medical Assistance Program	Cabinet for Health Services	FYE 6-30-94	605,355		X
93.778	Medical Assistance Program	Cabinet for Health Services	FYE 6-30-95	299	X	
93.778	Medical Assistance Program	Cabinet for Health Services	FYE 6-30-95	521,188	X	
93.778	Medical Assistance Program	Cabinet for Health Services	FYE 6-30-95	10,136	X	

COMMONWEALTH OF KENTUCKY
STATUS OF PRIOR YEAR QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1996
(Continued)

CFDA #	Program Title	State Agency	Audit Period	Amount	Current Status	
					Unresolved	Resolved
93.778	Medical Assistance Program	Cabinet for Health Services	FYE 6-30-95	50,300	X	
93.778	Medical Assistance Program	Cabinet for Health Services	FYE 6-30-95	97,635	X	
93.994	Maternal and Child Health Services Block Grant to the States	Cabinet for Health Services - Commission for Children With Special Health Care Needs	FYE 6-30-95	1,711	X	
94.003	Kentucky Community Service Commission	Council on Higher Education	FYE 6-30-94	232		X
TOTAL UNRESOLVED QUESTIONED COSTS				\$ 3,438,728		
TOTAL RESOLVED QUESTIONED COSTS				\$ 5,148,445		

COMMENTS AND RECOMMENDATIONS

COMMONWEALTH OF KENTUCKY
COMMENTS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 1996

MATERIAL CONDITIONS:

- 1) The Finance And Administration Cabinet Should Improve Procedures Having An Impact On The Assimilation Of The Cash And Investments In The Comprehensive Annual Financial Report
-

As noted in the prior year report, the Finance and Administration Cabinet's (FAC's) Division of Accounts (DOA) had not instituted adequate procedures to obtain information relative to the state investment pool and to ensure that the pool was properly allocated and reported in the Comprehensive Annual Financial Report (CAFR). Specifically:

- The DOA did not provide the Office of Financial Management and Economic Analysis (OFMEA) with written closing package instructions necessary to prepare an investment portfolio schedule which accurately reported the Commonwealth's investments and accrued interest receivable.
- DOA did not accurately and completely confirm to the component units and the audited entities of primary government their share of the Commonwealth's investment pool. As a result, amounts removed from the system did not agree to the entities' audited financial statements. This lack of communication required adjustments to be made in the financial statements and notes.
- DOA did not have adequate procedures which ensured a timely and efficient assimilation of accurate and complete data to be reported in the Cash and Investment note in the Commonwealth's financial statements.

FAC's management is responsible for accurate financial data and reporting.

Recommendation

We recommend the DOA:

- Provide OFMEA with written closing package instructions which include all information necessary for financial reporting.
- Inform all audited entities of the amounts and classification (as to cash equivalents and long-term investments) of their share of the Commonwealth's investment pool.

1) The Finance And Administration Cabinet Should Improve Procedures Having An Impact On The Assimilation Of The Cash And Investments In The Comprehensive Annual Financial Report (Continued)

Recommendation (Continued)

- Analyze each audited entity's data reported in their financial statements and notes and agree that information to the data reported on the applicable Annual Financial Report (AFR) form. Any discrepancies between the statements/notes and the AFR forms should be investigated and resolved. Additionally, a reconciliation should be performed between the data reported on the AFR 126(b) form, "Amount of Cash and Investments Held by the State Treasury," and the data contained in the Statewide Accounting and Reporting System (STARS).
- Redevelop the AFR 126(a)/(b) forms so that the AFR forms accurately disclose and categorize all of the audited entities' investment activities.
- Develop some sort of protocol for informing preparers for the various audited entities of what information should be reported in the AFR forms and how that information should tie to the entity's audited financial statements.

Agency Response

Procedures are being developed to address the items needed from OFMEA and to ensure that the amounts confirmed to component units are correct. The procedures will include processes to verify that amounts reported by the component units agree to confirmations. The forms to be submitted by the component units and the instructions are being reviewed and appropriate changes will be made.

2) The Department For Medicaid Services Should Develop Controls To Monitor The Third-Party Liability Function Performed By The Fiscal Agent

The Department for Medicaid Services (DMS) did not have adequate procedures to ensure third-party liability (TPL) information was obtained, reviewed, and input properly into the Medicaid Management Information System (MMIS). During our testing of the TPL function, we noted the following:

- DMS did not monitor the activity relating to TPL questionnaires which was performed by the fiscal agent's third-party liability section. Unisys, the fiscal agent, did not follow up with additional questionnaires if no response was received from the first questionnaire. DMS failed to detect that Unisys did not send follow-up questionnaires.
- DMS did not monitor the TPL determinations made by Unisys. The determinations were based upon information contained in TPL questionnaires returned by respondents.

2) The Department For Medicaid Services Should Develop Controls To Monitor The Third-Party Liability Function Performed By The Fiscal Agent (Continued)

- Unisys received data from various sources (Department for Social Insurance {DSI}, Child Support {CS}, Social Security Administration {SSA}) documenting third-party coverage of Medicaid recipients. Unisys input the TPL data received on these forms into the MMIS. DMS did not monitor this function to ensure proper input.

Additionally, we reviewed a sample of 105 TPL source documents (SSA-8019-U2, CS-40, PA-40) received by Unisys to determine if the documents contained information that would indicate an update to a recipient's TPL file. If the source documents indicated a TPL source, we checked for proper inclusion of this information on the recipient's TPL resource screen. We noted 22 exceptions where recipient TPL data was not in the MMIS. Upon inquiry, the fiscal agent determined that during the conversion period between fiscal agents - Electronic Data Systems to Unisys - TPL information in the MMIS was overlaid with "no data" for approximately 1,549 recipients.

Without an effective TPL system, excess payments may be made to Medicaid providers. Without proper monitoring of contracted services, specified activities could be overlooked resulting in federal noncompliance. TPL information entered for 1,549 recipients was erroneously deleted from the system and not detected. This resulted in paid claims for those recipients of \$465,022 (federal share) which may have been the responsibility of a third party.

42 CFR 433.135-154 requires a system that takes reasonable measures to identify medical services that are the legal obligation of liable third parties, such as private health or accident insurers, and exhausts such third-party resources before paying the related claims or seeks reimbursement from the third parties where the liability is established after the claim is paid.

Recommendation

We recommend that DMS monitor contracted services to ensure proper performance. Specifically, we recommend that DMS:

- Implement procedures for tracking whether or not the fiscal agent is following up on "no reply" TPL questionnaires.
- Test a sample of returned TPL questionnaires on a quarterly basis to ensure that TPL data is entered in the MMIS when indicated.
- Test a sample of TPL documentation forms (PA-40, SSA-8019-U2, and CS-40) on a quarterly basis to ensure that the data is properly input into the MMIS.
- Require the fiscal agent to develop a system check in the MMIS that will prevent an "add/no data" entry.

2) The Department For Medicaid Services Should Develop Controls To Monitor The Third-Party Liability Function Performed By The Fiscal Agent (Continued)

Agency Response

In order to monitor the activity performed by the fiscal agent's third-party liability section and ensure Unisys is providing follow-up with additional questionnaires on TPL and data from other sources (DSI, Child Support, SSA) documenting third-party coverage of Medicaid recipients, we have developed the following corrective action plan: A member of the TPL staff will regularly visit Unisys to pull a random sample of all TPL source documents, questionnaires and all pertinent paper and tape documentation. Staff will trace the process which Unisys has employed to ensure all appropriate follow-up activity has been initiated and action taken. Staff will document all cases reviewed and note any discrepancies found. Staff will investigate any discrepancies and all follow-up corrections. All materials reviewed will be available in files for auditors' review.

Contact was made with Unisys as soon as this error was discovered. It was found that on January 13, 1996, TPL staff added 1,542 recipient resource segments to the TPL Resource File. During the time frames of January, February, and March of 1996, these segments were erroneously deleted from the system through program error. The problem was discovered in June 1997, during the TPL audit.

Unisys created a program in July 1997 to read the Daily Transaction Log File from January 1996 through the current date and produced a report which identified the 1,542 recipients. The TPL operational area added the recipient information back on the Resource File in July of 1997. The TPL Retroactive month-end process produced the TPL Billings for all the claims which should have been cost-avoided, and the billing records were set up on the system August 5, 1997. The TPL Billing tape was sent to Administar that week, and the actual billings were mailed to the appropriate carrier for reimbursement.

We will return the federal share on claims that were paid, as we sent out billings to the insurance carriers on the match. When we receive the payment from the other insurance carrier, it is posted into the "MMIS system" which generates appropriate reports for the Health Care Financing Administration (HFCA) share to be returned.

3) The Cabinet For Health Services Should Improve Controls Over The Determination Of Accounts Payable

The Cabinet for Health Services (CHS) did not have policies and procedures in place to evaluate areas where estimates should be made to accrue accounts payable. Also, procedures did not appear to be consistently applied to document calculations of estimates. The statewide accounting system does not accrue accounts payable throughout the year. It is management's responsibility to identify areas where estimates should be made, to document a rational means of estimating the amount, and to report the estimate in the year-end closing package. Without proper policies and procedures, accounts payable could be misstated or omitted and not be detected.

During the audit of the Closing Package Form AFR-70, Summary of Accounts Payable, we noted expenditures for the June quarter of the Hospital Indigent Care Program were not included in the estimate for department 743; expenditures for department 738 were omitted entirely; and the estimates for some other departments did not appear to be based on previous history.

Generally accepted accounting principles (GAAP) require accrual of expenditures when it is measurable, which normally is when goods are received or services are rendered. Additionally, the "available financial resources" aspect of the modified accrual basis applicable to governmental funds normally permits expenditure accrual only when sufficient current financial resources are available. The state's policy for 'payable with current financial resources' is payable within one year.

Recommendation

We recommend CHS establish formal policies and procedures:

- To evaluate accounts to determine areas where estimates should be made.
- To document the determination of estimated accounts.

Agency Response

CHS will continue to request accounts payable data from all operations in the Cabinet through a letter sent to all Office Heads and Commissioners each year. The issue on the basis of calculating accounts payable on the Memorandum of Agreements (MAs) for Mental Health/Mental Retardation (MH/MR) will be addressed by evaluating the historical basis every two to three years. This updated data would then be used to calculate the accounts payable for MH/MR MA's.

Auditor Response

Although it is proper to request information from each Office Head and Commissioner, someone in the accounting section should also evaluate areas to determine if items they have knowledge of have been included in the response.

4) The Revenue Cabinet Should Improve Receipt Procedures (Date Stamp)

The Revenue Cabinet did not have procedures to capture the date that returns and remittances were received by the Cabinet. The Cabinet's receipt and tracking procedures included stamping returns and accompanying remittances with corresponding, sequentially numbered validation numbers. Those validation numbers became the control factor by which the Cabinet tracked the returns and ensured that all receipts were ultimately deposited. However, there was not always a crosswalk to indicate the date on which the validation numbers were assigned.

Without recording the date received on returns and remittances, the Cabinet could not always demonstrate that refund requests were received by the legally stipulated deadlines, or that proper penalties and interest were assessed for late payments. In addition, the Cabinet could not demonstrate compliance with KRS 41.070, which requires that moneys received be deposited in the most prompt manner available.

It should be noted that the Revenue Cabinet has made improvements in this area. Envelopes are attached to all Miscellaneous taxes, all Corporate taxes and all late returns. Also, pre-printed address labels for individual income tax returns that include a scan code enable the Revenue Cabinet to know the date these returns were received. However, during testing we found that these improvements were not always adequate for the following type taxes: individual income, withholding, sales and use, and health care provider tax. We understand it is up to the individual taxpayers to attach their pre-printed scan-code labels.

Recommendation

We recommend that the Revenue Cabinet date stamp returns and remittances upon receipt or devise an alternative method of tracking receipt dates. The Cabinet should consider:

1. Obtaining a stamp that includes a validating number and date; and/or
2. Maintaining a log to show the date validating numbers were assigned to each return or remittance.

Agency Response

This comment has been an issue since July 1995. The Kentucky Revenue Cabinet (KRC) agrees that placing the date received on all tax returns or correspondence is the most effective method of documenting timely receipts. However, due to the volume of returns processed and the correspondence received by the Cabinet, particularly during peak processing cycles, it is impractical from a personnel and cost perspective to manually stamp each document with the date received. This is consistent with Internal Revenue Service practices which do not include date stamping each individual income tax return. However, the use of bar code labels on the individual income tax current year returns enables KRC to have the equivalent of a date stamp for those returns.

4) The Revenue Cabinet Should Improve Receipt Procedures (Date Stamp) (Continued)

Agency Response (Continued)

It should be noted that the KRC has submitted a proposal to Empower Kentucky for upgrading the information system infrastructure (Integrated Tax System) which will include wholesale modernization of the KRC's processing. The proposed modernization will incorporate scanning and imaging technologies to improve the KRC's document tracking capabilities. The KRC Integrated Tax System initiative was subsequently approved on January 15, 1997.

5) The Revenue Cabinet Should Improve Controls Over Program Modifications

As was noted in the prior year's audit, adequate procedures were not established by the Revenue Cabinet to ensure only appropriately authorized modifications were made to application programs placed into production. Program modifications were made to Revenue application programs by the Department of Information Systems (DIS) based on customer requests submitted by the Revenue Cabinet. Revenue's monitoring procedures would not ensure that only the changes authorized were made to these programs. Additionally, although procedures were established to monitor the status of program modification requests, these procedures were not performed on a consistent basis.

The Revenue Cabinet developed procedures for program changes to the Revenue Cabinet's Compliance and Receivable System (CARS), On-line System Collective Accounts Receivable (OSCAR), and the Journal Voucher system. However, changes to programs for other major systems were not similarly controlled. Changes to other systems were not monitored using a separate Project Tracking System. Our review showed information concerning change requests tracked through this system was incomplete. Additionally, there was a lack of evidence that change requests tracked through this system were adequately reviewed and approved prior to allowing the affected programs to be promoted into production.

Failure to ensure only authorized changes were made to application programs exposed the Revenue Cabinet to unnecessary risks resulting in the loss of data integrity. Additionally, without consistently monitoring the status of program modification requests, the Revenue Cabinet cannot ensure necessary modifications were completed in a timely manner.

Program modification procedures should include steps to ensure all requested modifications are made, and only those authorized changes were made to application programs and placed into production. Procedures to monitor the status of change requests should be consistently followed to effectively manage program modifications.

5) The Revenue Cabinet Should Improve Controls Over Program Modifications (Continued)

Recommendation

We recommend that procedures be established requiring that prior to the final acceptance of program modifications, the person responsible for signing the program modification form be supplied with adequate documentation that program modifications were made to the satisfaction of the requesting user agency. Further, the procedures established for monitoring modification requests should be performed consistently. In our opinion, the same procedures followed for controlling modification requests for CARS and OSCAR should be utilized for change requests affecting all major Revenue Cabinet systems.

Agency Response

This is a repeat comment from the prior two years. KRC agrees that the procedure for approving program modifications requires proper and consistent review of program and test results to ensure that the users are satisfied with the changes. The KRC Information Resources Management Committee is responsible for prioritizing program modifications and meets monthly to review the status of the various projects.

All KRC requested changes are thoroughly tested in the test and/or training regions and results approved by KRC before they are promoted to production level. KRC employees who are testing the changes are responsible for testing all impacted programs or processes within multiple applications. This ensures that if a change is made to one program that is shared by other processes or applications, the change is correct in all areas.

The KRC works closely with DIS on all requests for new systems development, for the enhancement of existing systems, and for error corrections. KRC utilizes its internal Project Tracker system to monitor entry, progress and resolution of projects. KRC and DIS also utilize the DIS Automated Tracking Systems (DATS) for complete documentation of Change Control requests (CCRs) for CARS, KY OSCAR and the Journal Voucher system. KRC and DIS enter into DATS the documentation of the CCR, changes made, testing results and production promotion dates. Changes to other systems are monitored and tested as a result of system specification documents and DIS designated and negotiated timelines that are agreed upon by KRC. Monitoring of program modification requests is conducted accordingly to assure the timely completion of requests and in accordance with KRC priorities. KRC's Information Technology (IT) project and management staff are responsible for the timely completion of requests and were unaware of the noted operational deficiencies. However, KRC will take extra precaution to ensure that all projects are documented and tracked in the future.

6) The Revenue Cabinet Should Utilize The Automatic Log-off Feature For Information Management Systems And Customer Information Control System Applications

We found the Revenue Cabinet did not take advantage of the automatic log-off feature available for Information Management Systems (IMS) and Customer Information Control System (CICS) applications. Although some Cabinet employees used the Time-Sharing Option (TSO), which employed a fifteen-minute automatic log-off, the majority of employees utilized IMS or CICS to access critical application and data.

The failure to implement the automatic log-off feature provided an opportunity for unauthorized access to applications through active terminals left unattended by employees who had already logged on with their user identification and password. Such unauthorized access could lead to the loss of assets, interruption of services, or unauthorized data or program modifications.

The Cabinet's decision not to utilize the automatic log-off was apparently due to users' complaints about having to log back on to a system when a session had terminated by the automatic log-off. Another factor might have been the cost of implementing this feature.

Recommendation

We recommend the Revenue Cabinet identify those users who are accessing critical applications or confidential data through IMS or CICS and work with the DIS to establish the automatic log-off feature for those users. We further recommend the log-off time setting not to exceed 15 minutes. DIS has stated that they will likely charge agencies for the setup time involved in implementing this feature. However, the Cabinet must weigh the cost of strengthening this control against the potential loss which could result from not properly safeguarding state assets.

Agency Response

The Revenue Cabinet agrees that the automatic log-off feature should be utilized for IMS and CICS applications involving critical or confidential data. The Cabinet's Security Officer is in the process of identifying users at risk and the systems impacted. The Department of Information Technology will request a cost estimate for implementing the automatic log-off feature from DIS. The KRC Information Resources Management Committee will prioritize this request and assess the budgetary impact of implementing it.

However, the Department of Information Technology is migrating to Windows NT as the KRC standard workstation operating system. Windows NT allows the workstation screensaver's screen to be "disabled" or "locked up" after a designated time period (minutes). Basically, this means that these workstations which are used to connect to both mainframe and personal computer (PC) tax systems could be configured to operate the screensaver which replaces the content of the screen with a prototype graphical screen after a time period (seconds to minutes), as well as to lock the workstation up to disallow any further transaction until a user password is entered.

6) The Revenue Cabinet Should Utilize The Automatic Log-off Feature For Information Management Systems and Customer Information Control System Applications (Continued)

Agency Response (Continued)

This option will also be evaluated in coordination with the above IMS and CICS analysis to obtain the best solution for KRC to “time out” workstations. It must be noted that the current NT installation is incremental and will cover approximately 200 KRC users by June 30, 1997. Plans are to migrate to NT as a Cabinet standard, as funding is approved.

7) The Revenue Cabinet Computer System Must Be Modified In Order To Process Year 2000 Data

Revenue Cabinet computer systems must be modified in order to process year 2000 data fields. Most systems eliminate the ‘19’ century from the date and use the last two digits of the year. This reduced storage space, keystrokes, and calculation time. However, systems with a two digit year field will not accurately read, process, and calculate year 2000 data.

DIS performed a review of the Revenue Cabinet mainframe systems to estimate the resources and financial cost of modifying these systems to read and process year 2000 data. The review identified 18 systems requiring complete year 2000 conversion. Six additional systems required testing and possibly minor modifications. The review did not include systems on other platforms, such as networks.

The Revenue Cabinet has taken steps to initiate the year 2000 modification process, and plans to fund the year 2000 project from existing budget sources. The programming required to read and process year 2000 data was completed for one Revenue system, and two other systems were in the initial phase of the modification process. However, Revenue had not developed a specific plan to establish goal dates for initiating and completing system modifications.

If year 2000 issues are not addressed in a timely manner, various processing problems could occur: date comparisons will not work as expected, date sorts will result in sequence errors, file merges may produce unpredictable results, data edits may fail to prevent erroneous data, and data validations and projections may not be reliable. In effect, systems may produce inaccurate data or become dysfunctional.

In order for accurate system processing to continue, it is critical all systems be evaluated and necessary changes made before the date field causes systems to fail or produce inaccurate results. Modifications should be completed in sufficient time to allow testing to identify potential errors.

7) The Revenue Cabinet Computer System Must Be Modified In Order To Process Year 2000 Data (Continued)

Recommendation

We recommend the Revenue Cabinet continue to coordinate with DIS to assess the necessary resources and required funding to identify, modify, and test their systems on all platforms for year 2000 problems. The Revenue Cabinet should develop a plan to ensure adequate funds are available and to set goal dates to initiate and complete system changes. We suggest all changes be completed by January 1, 1999.

Agency Response

KRC is continuing to coordinate with DIS to assess resources and to identify, modify and test its systems on all platforms for year 2000 problems. Preliminary discussions with DIS on funding for KRC mainframe systems' conversion have tentatively been focused on managing the costs out of the existing operational budget. However, this funding strategy severely limits KRC's ability to adequately maintain its mainframe systems and is still under discussion.

KRC has a tentative timetable for the completion of the mainframe systems conversion. The conversion of the Tangible Personal Property Tax System (TPT), Corporation Tax System (CIL) and Omitted Property Tax System (OPT) has been completed; however, the test phase is incomplete. Testing on the TPT and CIL systems is scheduled to be completed April 1997. Some systems were selected for conversion at a later date due to their interfaces with other smaller systems. As the smaller systems are converted at earlier dates, many year 2000-compliance issues of the larger systems will be resolved; therefore, the conversion of the larger systems should be an easier process.

KRC is also starting the planning process to assess the impact of year 2000 on PC systems, hardware and facility components. KRC will coordinate this process and resource requirements with DIS and other state agencies as needed. Funding requirements will be ascertained during this planning process. A funding strategy to support these conversions has not been finalized. Funding requirements out of KRC's existing operations budget will have the same effect as noted above for mainframe systems, i.e. decreased capabilities to maintain PC and other systems.

KRC plans to establish a systems' requirement analysis for the year 2000, resource plan and funding methods/sources to enable all essential system conversions to be completed by January 1, 1999.

8) The Revenue Cabinet Needs To Improve Tracking Procedures For Contingent Liabilities

The Office of General Counsel, Division of Legal Services needs to improve tracking procedures for contingent liabilities. The Case Status Reports used to track cases did not contain complete information. We could not determine from the Case Status Reports whether the cases were “Assessment” cases or “Refund” cases. Also, we could not tell if the case was Probable, Possible or Remote. The Case Status Reports did not contain all cases as it was dated March 8, 1996. We traced Case Status Reports to Case Assignments Sheets and found fourteen refund cases on the Case Status Reports that were not on Case Assignments Sheets. We also found two cases on the Case Assignment Sheets that were not on Case Status Reports.

Without written documentation of all cases coming into the Cabinet and determination of type and likelihood of loss, there is an increased risk of an incomplete attorney letter. The contingent liability for the Cabinet could be understated without being detected.

Recommendation

We Recommend the Revenue Cabinet’s Division of Legal Services implement a formal tracking system. This should show the date cases are received, to whom they are assigned, and the date they are resolved. It should also include the classification of “Assessment” or “Refund” case, as well as the estimated probability of loss (i.e. Probable - greater than 75 percent, Possible - 50 percent to 75 percent, Remote - less than 50 percent).

Agency Response

KRC’s Division of Legal Services is in the process of improving this system, as discussed with the auditor. The status of pending cases’ reports (i.e., the Case Status Reports) will be revised to designate whether what is an issue, an assessment, refund, etc. The revised report will also allow for ready classification of probability of loss. The report will be more timely and eliminate the need to go to other sources to provide the information needed.

9) The Department for Social Insurance Job Opportunities and Basic Skills Program Should Improve The Internal Controls Relating To Support Services Transportation Payments

The Job Opportunities and Basic Skills Program (JOBS) provides transportation payments to individuals so that they may obtain job training. We tested support services payments case files and noted that:

- JOBS did not have adequate procedures to recoup overpayments to participants. Eight payments sampled were for advance transportation payments; however, the anticipated attendance did not equal attendance reported by the school. No overpayment recovery was made in any of these cases. 45 CFR 255.4 (j) (1) states: “The state must take all reasonable steps necessary to promptly correct any overpayments to a recipient or service provider.”

9) The Department For Social Insurance Job Opportunities And Basic Skills Program Should Improve The Internal Controls Relating To Support Services Transportation Payments
(Continued)

- JOBS did not consistently require all providers to report attendance accurately. Seven payments sampled were for final transportation paid in advance, but the number of days actually attended could not be verified. Two payments sampled did not contain a signature from a school official to verify attendance. U.S. Office of Management and Budget (OMB) Circular A-87, Attachment A, Paragraph C requires allowable costs to be supported by underlying documentation.
- JOBS personnel were sometimes unable to provide adequate support for these transportation payments. Case files were not located for five payments sampled. For one payment sampled, the incorrect number of days was requested on the Verification of Education/Training, Child Care, and Transportation (PA-33). Two payments sampled were blank for the number of days requested on the PA-33. Without ensuring that the PA-33s are complete and accurate, an incomplete audit trail is formed and the possibility of overpayments exists. 45 CFR 92.20 (a) (2) states: "Fiscal control and accounting procedures of the State....must be sufficient to permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes." 45 CFR 92.42(b) (1) states "...records must be retained for three years from the starting date specified in paragraph (c)." OMB Circular A-87, Attachment A, Paragraph C requires allowable costs to be supported by underlying documentation.

The federal share of the questioned costs of these payments totaled \$1,157.

Recommendation

We recommend DSI:

- Ensure that caseworkers fully understand how to adjust transportation payments when overpayments occur in accordance with adopted policy.
- Require all providers to report attendance accurately.
- Require caseworkers to complete and review payment records before approval.
- Maintain records to adequately support expenditures.

9) The Department For Social Insurance Job Opportunities And Basic Skills Program Should Improve The Internal Controls Relating To Support Services Transportation Payments
(Continued)

Agency Response

We take no exception and agree with the recommendations for improvement for all types of findings except the payments concerning final transportation paid in advance where attendance could not be verified and advance payments in which anticipated attendance did not equal attendance reported by school. We have adopted a policy which should prevent or greatly reduce the occurrence of these types of overpayments. We adopted a policy which continues to pay for transportation prospectively but sets a flat-rate amount for a range of days.

Auditor Response

The policy that pays for transportation prospectively at a flat-rate amount for a range of days did not take effect until the year ended June 30, 1997.

REPORTABLE CONDITIONS:

10) The Finance And Administration Cabinet's Procedures For Preparing The Comprehensive Annual Financial Report Should Be Better Documented And Improved

As noted in prior years, the procedures used by the Finance and Administration Cabinet's Reporting Branch for adjusting the Commonwealth's cash basis statements to conform to generally accepted accounting principles for presentation in the Comprehensive Annual Financial Report were not adequately documented and did not always result in conformance with GAAP. Specifically:

- Written instructions for the CAFR preparation process did not address all components, removals, reversals, etc., of that process. Since changes in personnel occur, it is important that such instruction be prepared.
- The Reporting Branch did not have procedures to gather the information necessary to make the component unit pension disclosures required by Section P20.130 of the Codification of Governmental Accounting and Reporting Standards. As a result, pension disclosures were not made for component units participating in a plan other than one of the five major state pension plans (Kentucky Employees Retirement System {KERS}, Teachers, State Police, County Employees, and Judicial). For the year ended June 30, 1996, audit reports for those components showed annual contributions in excess of \$51 million.
- The removal process that occurs during the preparation of the CAFR lacks a control procedure to ensure that all accounts affecting the removal entities are removed.

10) The Finance And Administration Cabinet's Procedures For Preparing The Comprehensive Annual Financial Report Should Be Better Documented And Improved (Continued)

Recommendation

- To improve the preparation and presentation of the Commonwealth's CAFR, we recommend a CAFR reporting manual be written explaining the overall approach as well as providing detailed instructions for each procedure to be followed in preparing the CAFR.
- Pension information should be requested from component units not participating in one of the five state-sponsored pension plans, and disclosure of that information should be included in the Commonwealth's Notes to the Financial Statements.
- We recommend the Reporting Branch contact the agencies subject to removal to ensure the list of accounts to be removed is complete and accurate prior to preparing the removal journal voucher.

Agency Response

A manual for the preparation of the CAFR is currently being assembled. We will design forms to gather the necessary pension disclosure information from the entities participating in other retirement plans. The process of confirming the account numbers of all component units for which removal entries are made is being done.

11) The Finance And Administration Cabinet Should Develop Procedures To Ensure Critical Application Systems Are Year 2000 Compliant

FAC had not committed the resources or formally begun the process to assess the year 2000 problem. Any computer calculation involving a date could create a problem processing year 2000 data. FAC systems, on the mainframe and other platforms, must be evaluated to determine the extent of the problem and resources needed to make the necessary changes.

Most systems eliminate the '19' century from the date and use the last two digits of the year. This reduced storage space, keystrokes, and calculation time. However, systems with a two-digit field for the year will not accurately read and process year 2000 data.

If year 2000 issues are not addressed in a timely manner, various processing problems could occur: date comparisons will not work as expected, date sorts will result in sequence errors, file merges may produce unpredictable results, data edits may fail to prevent erroneous data, and data validations and projections may not be reliable. In effect, systems may produce inaccurate data or become dysfunctional.

11) The Finance And Administration Cabinet Should Develop Procedures To Ensure Critical Application Systems Are Year 2000 Compliant (Continued)

In order for accurate system processing to continue, it is critical for all FAC systems to be evaluated and necessary modifications made before the date field causes their systems to produce inaccurate data or become dysfunctional. Modifications should be completed in sufficient time for testing to identify potential errors.

Recommendation

We recommend FAC coordinate with DIS to assess the necessary resources and required funding to identify, modify, and test FAC systems for year 2000 problems. FAC should ensure adequate resources are allocated to begin this process as soon as possible. We suggest all changes be completed by January 1, 1999, in order for system testing to ensure year 2000 problems have been resolved.

Agency Response

The planning for the year 2000 conversion for STARS and the Kentucky Automated Purchasing System (KAPS) has commenced and a formal workplan and cost estimate is slated for February 1997. Regardless of the outcome of pending Empower Kentucky plans to replace our financial systems, we are planning to have existing systems year 2000 compliant.

12) Controls Over Access To The Finance And Administration Cabinet's Security And Data Files Should Be Strengthened

Control procedures over system security and data files were not adequate to ensure proper segregation of duties and application of system access request documentation. The following weaknesses were noted:

- DIS programmers were granted update access to production load, Statistical Analysis System (SAS), and Job Control Language (JCL) libraries. The programmers' access to these libraries has since been deleted.
- Established system access controls were not consistently applied. Properly approved access request forms were required for all users except FAC's DOA employees.

Failure to maintain proper segregation of duties for programmers increased the risk that unauthorized changes in the production environment could be made and go undetected. Also, the propriety of user access cannot be ensured without an approved documented access request form for all users.

12) Controls Over Access To The Finance And Administration Cabinet's Security And Data Files Should Be Strengthened (Continued)

System security should be administered in such a way as to ensure proper segregation of duties. Employees should be granted the minimum access necessary for the completion of their job duties. A strong security environment does not allow programmers access to production load, SAS, and JCL libraries without authorization and oversight. Further, documentation should be available to verify proper authorization of system access granted for all employees.

Recommendation

We recommend:

- DIS programmers not be given access to production load, SAS, and JCL libraries. If they are granted this access, it should only be in an emergency situation, in which case the programmers' activities should be closely monitored. The access granted should be promptly revoked by the FAC security coordinator once the emergency situation is resolved.
- DOA system users follow the same procedures as other employees and be required to have an authorized access request form.

Agency Response

We concur with your audit findings regarding the formal documentation of the system user and administrator policies and procedures. We are in the process of implementing a security agreement with individual users regarding their duties and responsibilities. This implementation will be accompanied by a formal statement of administrator duties, responsibilities, and procedure.

13) The Finance And Administration Cabinet Should Utilize The Automatic Log-Off Feature For Customer Information Control System Applications

FAC's on-line applications through CICS were not set up to time out. The application or confidential information will remain available on the screen until a user logs off or until the system is brought down for nightly processing. This allows for unauthorized access to applications if the screen is left unattended.

A strong internal control structure requires application systems which include critical or confidential data to automatically disconnect a session if no activity has occurred for a specified period of time. This would safeguard misuse of an active session. Without this control, the risk of unauthorized access to FAC's applications is increased.

13) The Finance And Administration Cabinet Should Utilize The Automatic Log-Off Feature For
Customer Information Control System Applications (Continued)

Recommendation

We recommend FAC request DIS to implement the time out feature for critical and confidential CICS applications. Further, resources must be made available to fund the work performed by DIS.

Agency Response

We intend to cover this concern through the security and disclosure agreement with individuals. Further, the feature is currently an option available to a large number of our users who use Windows emulation for mainframe access.

14) The Finance And Administration Cabinet Should Develop Internal Control Procedures
Which Ensure Automated Agencies' Balances Are Recorded Correctly In The Statewide
Accounting And Reporting System's Fixed Asset File

Our testing indicated FAC did not have internal control procedures to ensure the correct recording of fixed asset purchases made by agencies which maintain their own automated fixed asset systems. The Natural Resources and Environmental Protection Cabinet (NREPC), Cabinet for Families and Children (CFC), Cabinet for Health Services (CHS), and Workforce Development Cabinet (WFDC) enter their own purchases into an automated fixed asset system, rather than the Fixed Asset Branch entering this data into the STARS fixed asset file. FAC had no control procedures which ensured the amounts capitalized were correct. As a result of these internal control weaknesses, we noted the following exceptions:

- NREPC - Two of seven purchase orders tested were not entered into their automated system, i.e., not capitalized.
- CFC & CHS - Six of 15 purchase orders tested were not capitalized. In addition, one purchase order was overcapitalized.
- WFDC - Eight of 24 purchase orders tested were not capitalized. In addition, two were undercapitalized and three were overcapitalized.

Through discussion with the automated agencies, we learned that many of the errors occurred because the agencies failed to enter purchases into their automated systems on a timely basis. Items had been entered by the agencies after their STARS fixed asset files had been updated. The above errors resulted in an understatement of \$166,000 in the General Fixed Asset Account Group.

14) The Finance And Administration Cabinet Should Develop Internal Control Procedures
Which Ensure Automated Agencies' Balances Are Recorded Correctly In The Statewide
Accounting And Reporting System's Fixed Asset File (Continued)

The Fixed Asset Branch's only control involved sending the closing package to each agency for verification of the accuracy of the amounts recorded in STARS. FAC's total reliance on this control was not sufficient because the agencies may not return the closing package or may approve the closing package without an adequate review. Since the Fixed Asset Branch is responsible for the preparation of the financial statements and notes related to fixed assets, good internal controls dictate that procedures should be in effect which help ensure that information recorded in the STARS fixed asset file is materially correct.

Recommendation

We recommend the Fixed Asset Branch develop internal control procedures which ensure balances recorded by automated agencies in the STARS fixed asset file are correct and that amounts capitalized are proper. These procedures should be implemented throughout the year in order to detect possible omissions. Examples of procedures are: 1) Periodically review possible capitalizable expenditures made by each automated agency and compare the total to what is recorded as additions to the STARS fixed asset file for reasonableness. Significant variances could denote problems at the agency level, which could then be corrected in a timely manner; and 2) Require the automated agencies to update the STARS fixed asset file more frequently, perhaps quarterly, and to provide a reconciliation between the agencies' records and STARS records. This would detect problems early and may also prompt the agencies to enter the purchases more timely.

Agency Response

The Fixed Asset Branch will request all agencies submit tapes quarterly. The Branch will also perform an internal audit on fixed asset reports generated for the automated agencies. The internal audit will investigate all differences when the document total differs by two percent from total capitalized assets.

15) Logical Access Control Over The Unified Personnel And Payroll System Should Be Strengthened

The Personnel Cabinet's access control procedures intended to protect Unified Personnel and Payroll System (UPPS) computer software and data files were not adequate to ensure that only authorized personnel could access UPPS data. We noted the following weaknesses:

- Eight cases in which DIS programmers and system librarians were granted access through the Commonwealth's TSO to libraries and data files.
- Two cases in which DIS programmers were provided CICS update access to various data files, giving them the ability to enter new employees, change deductions, and key payroll transactions. One of these programmers also had the ability to set up and alter user access.
- Logical access control weaknesses that increased the risk of intentional or unintentional modifications of computing resources.

Recommendation

We recommend DIS programmers and librarians not be given access to program load libraries, production data files, or JCL libraries except in emergency situations. Access granted in these situations should be closely monitored and promptly revoked once the situation is resolved. We also recommend a Personnel Cabinet employee be appointed as back-up security administrator, and Personnel Cabinet system users follow the same procedures as other employees and be required to submit an authorized access request form.

Agency Response

We have restricted programmers' access to read only, with the exception of the back-up security administrator. This is due primarily to the PTL system and the lack of technical training in that area. Personnel employees will be required to submit an authorized access request form.

16) Personnel Cabinet Computer Systems Should Be Modified To Process Year 2000 Date Fields

Computer systems within the Personnel Cabinet must be modified to process year 2000 date fields. Most systems eliminate the '19' century from the date and use only the last two digits of the year. Systems using a two-digit year field will not accurately read, process, or calculate year 2000 data. The Cabinet did not develop a plan to ensure systems on all platforms were reviewed, to identify the funds required or funding source(s), to specify the period of time funding would be required, and to establish priorities for modifying systems. Further, no evaluation was made documenting the effect project delays have on labor costs.

16) Personnel Cabinet Computer Systems Should Be Modified To Process Year 2000 Date Fields
(Continued)

Recommendation

We recommend the Personnel Cabinet continue the process already begun in conjunction with DIS to assess the necessary resources and required funding to identify, modify, and test systems on all platforms for year 2000 problems. The Cabinet should continue efforts to obtain, through the budget process, funding adequate to complete the year 2000 project and to properly maintain their systems as required. The Cabinet should also develop a plan to establish priorities for year 2000 system modification and testing. We suggest all changes be completed by January 1, 1999, in order to adequately test and ensure year 2000 problems are resolved.

Agency Response

The Personnel Cabinet has been aware of the significance of the year 2000 on our systems for many years. This was first documented in the IRP Document submitted to the then KIS Commission in 1991. We will continue to work toward securing sufficient funding to make the necessary changes before a system failure or inaccuracy occurs. However, it must be noted that securing funds for this project is beyond the limited scope of this Cabinet, and the Cabinet to date has done what is in our power to do on this issue. If additional funding is not provided, efforts will still be made to achieve the required system modifications within existing maintenance budget, at the cost of sacrificing the ability to meet other mandates or modifications.

17) The Department For Medicaid Services Should Improve Controls Over Drug Rebate
Billings, Collection, And Recording

Internal controls over drug rebate billings, collection, and recording within the Medical Assistance Program's (MAP or Medicaid) Drug Rebate Program were not adequate to ensure and document that accounts receivable were handled in accordance with management's assertions. Receivables were recorded based on utilization data maintained by the fiscal agent (Electronic Data Systems, succeeded by Unisys) and rebate formulas provided by HCFA. During our examination of the Program's billing, collection, and recordkeeping cycles, we noted several weaknesses in various areas of the Program. First, we tested 40 rebate billings from the billing cycle through the receipt cycle and noted the following exceptions:

- a) The Rebate Billing Statements for the quarter ended December 1995 were mailed 14 days late.
- b) Six labeler checks were received by the fiscal agent and not posted in the Medicaid MMIS timely. For testing purposes, we considered two working days to be timely.

17) The Department For Medicaid Services Should Improve Controls Over Drug Rebate Billings, Collection, And Recording (Continued)

- c) Four drug labelers were not sent a 38-day delinquent payment notice after payment had not been received by the fiscal agent within 38 days of the postmark date on the Rebate Billing Statement.
- d) Sixteen labelers' Labeler Quarter Detail Screens in the MMIS had either a positive or negative "balance" amount for the tested quarter. This indicated a lack of follow-up procedures.
- e) One drug labeler did not receive a Rebate Billing Statement for the quarter ended March 1996 even though the Labeler Quarter Detail Screen reflected a "billed amount."
- f) Unisys was unable to provide utilization counts to substantiate the "Total Number of Units Paid" on seven of the 17 National Drug Codes (NDC) selected from quarterly Rebate Billing Statements.

Second, since the implementation of the Drug Rebate Program in 1991, DMS has made great strides in developing and implementing controls over the Program. However, large outstanding drug rebate balances remain unresolved, which indicates a lack of follow-up procedures to settle drug rebate disputes. Additionally, DMS did not have specific written procedures documenting step-by-step processes taken by DMS staff to resolve disputes with drug labelers. This includes not having procedures for reducing and writing off outstanding accounts receivable balances.

Third, DMS did not establish procedures which would evaluate the accuracy of data contained on pharmacy claims by determining pharmacy providers enter correct "units billed" for drugs actually dispensed.

The lack of an effective internal control structure increases the risk that laws and regulations of the Drug Rebate Program will not be followed, leading to the possibility of sanctions by the federal government, including possible disallowance of expenditures. Further, since a portion of the rebate collected would be used to reimburse the Commonwealth for its match, failure to collect all rebates due results in a loss of state revenue. Title XIX of the Social Security Act as amended by the Omnibus Budget Reconciliation Act of 1990, Section 4401 requires manufacturers to reimburse to the State a fee per drug unit dispensed by providers of Medicaid services. It is DMS's responsibility to establish internal controls to properly record, collect, and report all amounts owed to and received by Medicaid.

17) The Department For Medicaid Services Should Improve Controls Over Drug Rebate Billings, Collection, And Recording (Continued)

Recommendation

We recommend that proper controls be implemented by the fiscal agent or by DMS to ensure the following objectives are met:

- a) Rebate Billing Statements are mailed to drug labelers within 60 days from the end of the quarter in which drugs were paid. If the HCFA tape is not received within 45 days after the end of the quarter, the Rebate Billing Statements should not be mailed beyond the same number of days the HCFA tape was late.
- b) All labeler checks received are posted in the MMIS timely.
- c) Delinquent payment notices are sent to all labelers who have not paid the amount due MAP within 38 days from the date the bill was postmarked. Additionally, DMS should continue to follow up on late payments even after the 38-day notices have been mailed.
- d) Drug rebate discrepancies between DMS and drug labelers are resolved within a reasonable amount of time.
- e) All drug labelers are mailed a Rebate Billing Statement when a rebatable drug has been paid by MAP.
- f) The MMIS fiscal agent can provide utilization data to substantiate the “Total Number of Units Paid” as reported on the quarterly Rebate Billing Statements.
- g) DMS should prepare specific written instructions on drug rebate resolution procedures. This would be in addition to the current procedures outlined on page 11 of the Drug Rebate Procedures Manual (Revised 3/95).
- h) DMS should continue to work toward establishing controls within the POS ProDUR system that would ensure that pharmacies are billing correctly for “types of units” dispensed to Medicaid recipients. Incorrect data in this area translates to inappropriate reporting of “total units paid” on the Rebate Billing Statement.

17) The Department For Medicaid Services Should Improve Controls Over Drug Rebate Billings, Collection, And Recording (Continued)

Agency Response

- a) *A DCR (Design Change Request) will be prepared which requests Contract Monitoring and the current fiscal agent (Unisys) to prepare for Drug Rebate a notification log containing the date the HCFA tape was received by DMS and the fiscal agent along with the date the 38-day notice letters are due and mailed. When appropriate, this Drug Rebate Log will include days late, an explanation, and corrective measures taken.*
- b) *All of the examples fell in the period of implementation of the new MMIS. Drug rebate screens were not put into production until the first week of April 1996. All drug rebate checks were deposited as they were received, but could not be posted until the system was developed to accept them.*

Since the screens have been in production, the normal posting turnaround time is five working days which has remained consistent since implementation.

We believe the problem reported in the audit was due to the implementation of the MMIS system, and the posting of five days is a reasonable time frame at this time.

- c) *A DCR will be prepared which requests Contract Monitoring and the current fiscal agent (Unisys) to prepare for Drug Rebate a notification log containing the date the HCFA tape was received by DMS and the fiscal agent along with the date the 38-day notice letters are due and mailed. When appropriate, this Drug Rebate Log will include days late, an explanation, and corrective measures taken.*

Drug Rebate will include in this DCR a request to send a 60-day (from the billed date) late notice letter to labelers that have not responded to the 38-day notice letter. They will be notified that 30 days from the date of this letter all remaining unpaid balances will then be turned over to ClaimTraQ, Inc., for dispute resolution. Contract Monitoring and Unisys will be instructed to include this request in the newly requested Drug Rebate Log. The Drug Rebate Manual will be revised/updated to include the procedures as described in the DCR request.

- d) *This discrepancy (negative/positive balances) was initially defined by drug rebate staff. This was a problem created when Unisys (in error) placed test data into production. A DRF (Discrepancy Report Form) was prepared for the Contract Monitoring Branch. Drug Rebate staff has been informed that Unisys staff are researching to identify needed action to correct the discrepancy and will take corrective action.*

17) The Department For Medicaid Services Should Improve Controls Over Drug Rebate Billings, Collection, And Recording (Continued)

Agency Response (Continued)

- e) *This discrepancy was also located by Drug Rebate staff. A DRF was prepared for the Contract Monitoring Branch. Drug Rebate staff has been informed that Unisys staff are researching to identify needed action to correct the discrepancy and will take corrective action.*
- f) *The MMIS fiscal agent should be capable of providing utilization data to substantiate the total number of units paid; however, the request must be made for 'data at the time billed.' If not defined, adjustments could be made to these NDCs. Therefore the data would appear to be erroneous.*
- g) *The Drug Rebate staff is in the process of rewriting the manual to include the procedures as described in the DCR, to include references to ClaimTraQ, Inc., and their resolution responsibilities.*
- h) *DMS has addressed HCFA concerning the 'types of units' problems. To date, HCFA has expressed no interest to solve this discrepancy and it is not solvable at the state level.*

Auditor Response

- b) *We believe two days is more than ample time to update the system. Of the six exceptions noted, five exceeded CHS's standard of five days for posting to the system.*
- f) *We worked in conjunction with DMS and Unisys staff when defining data needed to confirm the Rebate Billing Statements. However, utilization data on seven NDC's could not be confirmed after three different ad hoc reports were provided. Each report contained a different utilization amount for each NDC.*
- h) *DMS should continue to stress to HCFA the importance of coordinating drug rebate tape "types of units" to widely recognized pharmacy billing system "types of units" dispensed.*

18) General Computer Controls Over Disability Determination Computer System Should Be Strengthened

During our review of the CASE application used by Disability Determination, within CFC, we noted areas of general computer controls which should be strengthened. The following weaknesses in internal control were noted:

- Current application modules use two-digit year values. As a result of the two-digit year values, the year 1999 (i.e., '99') may represent the maximum date value that Disability Determination's CASE application will be able to process. Four-digit year values will be needed to properly handle computations involving dates after December 31, 1999. To ensure that Disability Determination is capable of dealing with the year 2000, efforts must be made to assess the impact of this issue and take appropriate actions well in advance of January 1, 2000.
- A formal computer security policy had not been developed. A security policy provides uniform understanding and enforcement of IT security. Without an appropriate policy, which is supported by standards and procedures, users may not fully understand the significance of Disability Determination's information assets.
- Currently the process to establish, modify, or revoke system access is informal and usually initiated by a phone call or e-mail. A lack of formalized security authorization procedures leaves Disability Determination open to security risks due to improper access granted to new users, improper access that is not changed when an employee transfers to a new department, and accounts that remain active after the termination of an employee.

Recommendation

- In order to ensure that the agency's computing environment can properly deal with the year 2000, we recommend that management investigate all current financial applications which are not year 2000 compliant. Specific efforts should be taken to assess the potential impact of the year 2000 issue within the current IT environment and to develop an appropriate course of action.
- We recommend that management develop and distribute a formal computer security policy which addresses confidentiality of sensitive information, data integrity, and availability of resources. The policy should establish who is authorized to access what information. It should also refer to standards and guidelines as to how much and what security measures are necessary. Security administration procedures should be developed and implemented that include a requirement for all employees assigned a system user ID to sign a confidentiality statement affirming their understanding that passwords, programs, and information are to be kept within the program. In addition, the computer security policy should provide for consequences of noncompliance.

18) General Computer Controls Over Disability Determination Computer System Should Be Strengthened (Continued)

Recommendation (Continued)

- A security request form (either in paper or electronic format) should include a listing of access levels needed within applications and authorization from the program manager responsible for the new user. This segregates the duty of assigning user access levels from the actual administration of the user accounts on the systems. Use of the security request form should be strictly enforced to allow for immediate notification of any changes in the user environment.

Agency Response

- *Levy and Associates, the Disability Determination System (DDS) software provider, is currently negotiating with the SSA to migrate the DDS software to a year 2000 compliant status. There is a plan of operation ready once the cost factors are settled. DDS has requested to be one of the early states to migrate and expects to be compliant by the end of 1998. Wang, the hardware manufacturer, has an operating system that is year 2000 compliant, OS 7.52. DDS will be migrating to that operating system after completing the current upgrade.*
- *We accept this recommendation. A formal computer security policy will be implemented in accordance with this stated recommendation. The plan implemented will be based on the DSI model. This will establish a uniform understanding of the DDS and parent agency systems' standards and procedures.*
- *Requests may be made by phone from one's responsible supervisor, whom we know personally and identify before assigning an ID and access. Individual users cannot simply request and receive their own security access. In addition, the DDS Director's office informs the system administrators of the termination of an employee so that he/she is deleted from the system. The Division has 4 system administrators who personally know and can identify all of the supervisory and management staff of the Division. This combines better security and better responsiveness than use of a form.*

Auditor Response

Although it is good that the security administrators can identify all of the supervisory and management staff, written requests (either paper or electronic) ensure there are no miscommunications between those staff members and the administrators. It also serves as documentation that actions taken were actually authorized.

19) The Cabinet For Health Services Should Improve Controls Over The Kentucky Health Care Program

CHS did not have procedures in the Kentucky Health Care Program (KHCP) to review hospital reimbursement claims for indigent care costs to determine the eligibility of the indigent or to verify the number of days for which care was provided. In addition, duties related to the administration of the KHCP reimbursements were not adequately segregated in that requests for payments submitted by the hospitals were compiled by the same individual responsible for distributing the checks to the hospitals.

Under the KHCP, hospitals were permitted to receive reimbursement for care provided to indigents. Hospitals were reimbursed for indigent care using the hospitals' approved Medicaid rate times the number of days care was provided. A stipulated amount was budgeted annually for indigent care reimbursements, and that amount was apportioned to hospitals based upon the number of days stay for which reimbursement was claimed.

Failure to verify participant eligibility and length of stay could result in certain hospitals receiving a disproportionate share of the indigent care budget. In addition, inflated costs could result in more moneys being apportioned than are justified for the program. Failure to adequately segregate the recordkeeping and approval processes from check distribution responsibilities could allow errors or irregularities to occur and not be detected in a timely manner.

Recommendation

We recommend CHS:

- Institute procedures to verify the indigent care cost report from hospitals. Both the eligibility of the recipient (indigent) and the length of stay should be verified.
- Institute procedures to segregate check distribution duties from the record keeping/approval processes or institute compensating controls to mitigate that weakness.

Agency Response

- *All instate acute care hospitals participating in the KHCP program must follow rigid guidelines for determining eligibility of recipients. Hospitals are required to maintain verification of recipient eligibility on file. DMS is planning to require all future hospital audit contracts provide that a statistically valid sample of patients reported on the KHCP log forms be examined to ensure that the eligibility form was completed and eligibility was accurately determined.*

19) The Cabinet For Health Services Should Improve Controls Over The Kentucky Health Care Program (Continued)

Agency Response (Continued)

- *Segregation of duties was, and remains, in place. Designated reimbursement staff determines the appropriate KHCP reimbursement amount and requests checks to be issued. Checks are received from the Office of Program Support and are delivered to the reimbursement staff originally requesting checks to verify accuracy of the checks. The checks and all supporting data are then delivered to separate reimbursement staff for correlation of data to check amount and distribution of the checks to providers.*

Auditor Response

- *We strongly encourage review of KHCP eligibility determinations in order to ensure that hospitals comply with requirements of the program. Although it is important to establish requirements, unless there are controls in place to ensure compliance, hospitals can more or less maintain and submit any data they wish to submit.*
- *'Segregation of duties' by definition is a primary internal control intended to minimize fraud and embezzlement by assuring that any one person does not have access to two different control functions. If the checks and all supporting data are delivered to separate staff for correlation of data to the check amount, there is no reason for the originating staff to receive the checks.*

20) The Finance And Administration Cabinet And The Cabinets For Health Services And Families And Children Should Develop Procedures To Ensure Vendors Providing Services To Federal Programs Are Not Debarred Or Suspended By The Federal Government

Federal regulations prohibit vendors who have been debarred or suspended from providing services to federal programs. FAC did not have a system which would identify those debarred or suspended parties or prevent them from doing business with state administered federal programs. In addition, as noted in prior year audits, CHS and CFC did not, in the absence of a state system, have procedures which would identify those debarred or suspended parties or prevent them from doing business with cabinet administered federal programs. Federal monies could be expended for services provided by a debarred or suspended vendor resulting in unallowable expenditures, which may have to be repaid with state funds.

Federal Executive Order 12549, Section 5 requires that the federal government compile a list of debarred and suspended vendors. The Common Rule prohibits agencies receiving federal funds from using these vendors.

20) The Finance And Administration Cabinet And The Cabinets For Health Services And Families And Children Should Develop Procedures To Ensure Vendors Providing Services To Federal Programs Are Not Debarred or Suspended By The Federal Government
(Continued)

Recommendation

We recommend that FAC, CHS, and CFC:

- Obtain the listing of debarred and suspended parties from the federal government;
- Prevent these vendors from doing business with federally related programs.

Agency Response

FAC:

We are attempting to secure the ‘debarred’ vendor list from General Services Administration to evaluate how to prevent state agencies receiving federal funds from using ‘debarred’ vendors.

CHS and CFC:

See FAC’s response above.

21) The Department For Medicaid Services Should Improve Internal Controls Relating To The Alternative Intermediate Care/Mental Retardation Waiver

As part of the Medical Assistance Program (MAP), CHS obtained an Alternative Intermediate Services for the Mentally Retarded (AIS/MR) waiver from the federal government that allowed CHS to waive specific Medicaid restrictions. This enabled certain individuals to remain in their homes as opposed to being institutionalized. We noted three problems with the provider certification and payment approval processes of the AIS/MR waiver program.

- The AIS/MR waiver requires providers to be certified annually DMS contracted with a third-party reviewer to perform this function. Once the survey was performed, a letter was sent from the reviewer to DMS recommending whether the provider should be certified or not. The letter also stated the length of time to recertify the provider, usually one year. The new recertification end date was updated and maintained in the MMIS. Certifications were monitored through the MMIS by entering specific eligibility periods for each provider. However, DMS changed the eligibility dates to allow for payments to continue to be processed even if the reviewer had not notified DMS of a provider’s recertification status. By changing the certification dates before obtaining documentation of certification, DMS circumvented established controls and allowed payments to be made to potentially uncertified providers.

21) The Department For Medicaid Services Should Improve Internal Controls Relating To
The Alternative Intermediate Care/Mental Retardation Waiver (Continued)

Our testing of 45 providers disclosed the following:

- Two providers' certification end dates were updated in the MMIS by DMS before the recertification had been performed. According to DMS personnel, this was necessitated because of a delay in renewing the contract with the reviewer.
- Seven providers' certification end dates were updated in the MMIS by DMS before DMS had received notification from the reviewer that the certification periods had been "back dated" in order to cover the lapsed certification periods.

DMS obtained the Waiver from the federal government based on criteria established in the Waiver agreement. The AIS/MR services manual (pages 3.5 and 3.6) states:

Providers who are not certified, shall not be reimbursed by Kentucky Medicaid.... The Kentucky Medicaid Program may terminate a provider agreement for participation based on noncompliance with all applicable requirements....Prior to recommendation of certification of any provider, the DLR shall conduct a survey to determine compliance with the AIS/MR program requirements....A recertification survey is conducted by the DLR within six (6) months of the initial survey and annually thereafter....Only those providers that retain certification shall be permitted to continue to serve AIS/MR clients.

As of November 1992 the third-party reviewer replaced DLR as the surveying agency. Without systems to ensure compliance with waiver terms (i.e., timely contracting and strict adherence to established procedures), the waiver could be revoked.

- As part of the AIS/MR waiver, DMS maintained files for each provider to ensure that certification requirements were met. Documentation in the files included the review findings, a letter to the provider communicating the results of the review, applicable plans of correction (POC), and POC acceptance letters. A checklist was included to track items received or completed as applicable.

Our testing of 64 reviews disclosed the following:

- One review did not have a POC on file.
- Two reviews did not have POC acceptance letters on file.

Documentation serves as proof the provider was properly certified and eligible to participate in the waiver program, and that DMS was monitoring to ensure compliance.

21) The Department For Medicaid Services Should Improve Internal Controls Relating To
The Alternative Intermediate Care/Mental Retardation Waiver (Continued)

- Each recipient had an approved plan of care and an individual habilitation plan (IHP) which was entered into the MMIS to ensure claims agreed with authorized treatment and that limits on treatment had not been reached before payment was made. However, the edit checks within the MMIS to determine the propriety of AIS/MR claims prior to paying waiver providers were not operational.

Without prepayment edits, providers may be reimbursed for services that do not agree with the recipient's plan of care or IHP.

Recommendation

- a) We recommend strict adherence to procedures which have been implemented to ensure compliance with federal laws and regulations. The State should be responsible for the entire cost of recipient care when noncompliance results from matters in their control.
- b) DMS is currently using a checklist to ensure that the provider files contain all required documentation. Each checklist should be reviewed periodically to ensure all required information is obtained and procedures are performed.
- c) Since Unisys has corrected the system problem, DMS should use the edit checks to ensure that AIS/MR provider payments are only made for claims that agree with authorized treatment and limits on treatment.

Agency Response

- a) *As specified in the summary of findings, there were unforeseen delays in renewal of the third-party reviewer's contract in 1995. This resulted in a variance from the third-party reviewer's prescheduled certification and recertification survey visits.*

Upon contract renewal, the third-party reviewer immediately resumed the survey visits, targeting those providers requiring immediate certification/recertification updates.

Specific reference is made, to the fact DMS went into the MMIS and changed applicable end dates so claims would not be denied even though DMS had yet to receive written documentation that the surveys had been conducted and recertification periods had been "backdated" by the third-party reviewer.

The contract between DMS and the third-party reviewer specifies on page 1, section E, that "results of all surveys, both initials and recertifications, shall be transmitted to the DMS within sixty (60) days of the date of the survey."

21) The Department For Medicaid Services Should Improve Internal Controls Relating To
The Alternative Intermediate Care/Mental Retardation Waiver (Continued)

Agency Response (Continued)

Due to the fact that providers' certification/recertification may be pending during the sixty-day turn around time to receive the written information, DMS (AIS/MR staff) receives from the third-party reviewer's representative recommendations for certification/recertification via telephone immediately following the survey. This enables DMS to prevent "lapses" in service while waiting to receive the typed summary of findings and recommendations.

The information previously referenced was received from the third-party reviewer by telephone on the last day of, or the day following, the survey visit for each provider listed on the MAP Attachment A. Subsequently, DMS entered the appropriate information into the MMIS to prevent undue "lapses."

In adherence to contractual procedures, results of the third-party reviewer's findings were received by DMS in each case listed within sixty days of the date of the survey. In addition, the typed/completed results/findings were also received by DMS within the required sixty-day time frame.

Scheduled certification/recertification visits continue to be conducted and maintained as outlined in the AIS/MR manual. The contractual procedures and/or other processes referenced are based on the criteria of the approved AIS/MR Waiver agreement.

To enhance AIS/MR processes for updating providers' certification/recertification, we will request that the third-party reviewer "FAX" their recommendations for certification/recertification to DMS immediately following a survey visit, so that documented recommendations are established and available. Telephone contacts following survey visits will also continue as this has been an excellent source of communicating the providers' updated status and other important information about pertinent issues.

Information regarding provider certification/recertification updates shall be entered into MMIS as soon as it is transmitted to DMS via telephone, FAX, and/or typed copy in order to avoid unnecessary "lapses."

All documentation, including phone messages, will be maintained in individual provider files and accessible as needed for review and/or easy reference.

- b) As described in the comment, a checklist is utilized to track the receipt of required documentation related to ensuring that provider certification requirements are met.*

21) The Department For Medicaid Services Should Improve Internal Controls Relating To
The Alternative Intermediate Care/Mental Retardation Waiver (Continued)

Agency Response (Continued)

To improve upon the effectiveness of this process, a second copy of each checklist shall be maintained in a centralized location. In addition to documentation on the checklist in each individual provider's file, information, as appropriate, shall also be entered onto the checklist in the centralized file, to include if and when a POC is requested.

The centralized file shall be reviewed at least weekly to ensure that each step in the process is carried out in a timely manner. Upon identifying non-adherence to the process, the AIS reviewer shall make appropriate contacts to determine the status of outstanding issues, events, and/or requested information/POCs. Steps shall be initiated at that time, if necessary, to obtain required documentation and/or to resolve outstanding issues in order to maintain timeliness of the process and desirable outcomes for AIS/MR waiver recipients.

- c) Edit checks were in place and operating on September 1, 1996. The edit checks prevent an AIS/MR waiver claim from being paid if a prior authorization (PA) for services is not in the MMIS for the recipient.*

22) The Cabinet For Health Services Should Improve Controls To Ensure That Medicaid
Payments Are Made Only For State-Approved Services

CHS's Department for Medicaid Services did not have procedures to ensure that only state approved services were paid through the MAP. The procedures to input eligible services into the MMIS did not include a procedure to ensure that the service had also been approved as eligible in the State plan. The State plan is a federally approved document submitted by the Commonwealth of Kentucky designating those services the Commonwealth has agreed to honor under the MAP.

The payment of Medicaid claims is controlled through the use of the MMIS, a computerized system that compares claims to a pre-established list of eligible services. Basically, if a claim represents an eligible service it would be approved for payment. Therefore, failing to ensure that the MMIS was updated for state-approved services could result in payments being made for services approved by the federal government but not by the state. The state has the prerogative of not allowing all services approved by the federal government.

22) The Cabinet For Health Services Should Improve Controls To Ensure That Medicaid Payments Are Made Only For State-Approved Services (Continued)

Recommendation

We recommend controls be implemented to ensure the entry of any procedure code (eligible service) into the MMIS is for an approved service and any changes are approved by an authorized person to guarantee the completeness and accuracy of all procedure codes. Further, CHS should review the codes currently in the MMIS to determine if any codes are included which are not approved by the State plan.

Agency Response

DMS manuals and corresponding Kentucky Administrative Regulations (KAR) designate covered and noncovered services. DMS staff coordinates the content of the State plan with coverage in manuals and KARs.

On-line update capability now used by DMS staff with the Unisys system automatically records the user identification number; therefore, all transactions to any screen may be traced to the specific person who entered the data. Beginning with the update to the 1997 codes, staff are utilizing the notepad area on the Procedure, Diagnosis and Drug file to provide documentation of reason for additions, changes and who gave authorization to make these changes. Prior to acceptance of any new HCFA Common Procedure Coding system codes, multiple staff from all branches in the Division of Individual and Clinic Providers annually review these codes with a sign off by the Branch Manager for accuracy. Each Branch Manager will perform a sample review of the loaded codes on the Unisys file compared to the actual list of the official approved codes beginning in the year 1998. A memo is sent to the Director and Secretary for final approval; after approval is received, the codes are data entered in the system.

23) The Division Of Maternal And Child Health Should Approve Payments Only After Supporting Documentation Has Been Submitted

The Division of Maternal and Child Health (MCH) approved payments to the University of Louisville and the University of Kentucky, by interaccount, for the final quarter of the fiscal year with no supporting documentation attached in some instances, and based on estimated expenditures, in other instances. This practice resulted in refunds for several projects. When the Division of MCH approves expenditures without supporting documentation, the Division cannot substantiate the federal allowability of those expenditures. We noted one instance where supporting documentation was not received until requested by the auditors.

45 CFR Part 96, Subpart C requires states to maintain fiscal control and accounting procedures sufficient to "...permit the tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of the statute authorizing the block grant."

23) The Division Of Maternal And Child Health Should Approve Payments Only After
Supporting Documentation Has Been Submitted (Continued)

Recommendation

We recommend that the Division of MCH implement procedures to prevent the payment of expenditures that are not accompanied by detailed supporting documentation or are based on estimates without exception.

Agency Response

Corrective action has been taken. Letters have been sent to inform Universities that quarterly bills will not be processed without supporting documentation. Division of MCH staff have been directed to refrain from paying any requisition until they have received documentation that the work has been completed.

24) The Cabinet For Health Services Should Strengthen Controls Over Estimation Of
Contingent Liabilities

CHS did not have standardized procedures to calculate estimates of loss and estimates of probability of loss for contingent liabilities. Also, there was no supporting documentation for the contingent liability status report which was used to prepare the year-end closing package.

Without standardized procedures, such as items which should be included, estimates could vary significantly for similar cases due to different attorneys working on the cases. Further, the lack of supporting documentation for the estimates of the likelihood of loss, potential monetary damages, and changes in these estimates, make it difficult for someone other than the attorney handling the case to review and assess the reasonableness of the determinations.

GAAP requires the recording of a loss liability if it is probable a liability has been incurred at the balance sheet date and the amount of the loss can be reasonably estimated. Good internal control practice dictates the use of standardized procedures and written documentation in order to make and support these accruals.

Recommendation

We recommend CHS institute standardized procedures for the estimation and documentation of information used to accrue contingent liabilities.

24) The Cabinet For Health Services Should Strengthen Controls Over Estimation Of
Contingent Liabilities (Continued)

Agency Response

Although original case information is always entered upon accepting responsibility of a new case, we agree and will implement, all changes in original estimates, the reason for change, with approval by deputy counsel's signature.

We agree that one process should be used as the legal department's estimation procedure. We have undertaken to remind all counsel that in calculating estimates for contingent liability status reports, all legal factors are to be considered and given appropriate weight, including questions of jurisdiction, venue, duties of care owed, defenses/immunities to prima facie claims and applicability of all legal doctrines, whether gleaned from common law or statutory law and with such puissance as is shown upon emergence from any appropriate litmus test for its constitutionality.

25) Subrecipient Monitoring Procedures At The Division Of Substance Abuse Should Be Improved

CHS's Division of Substance Abuse procedures which were established to ensure the review of quarterly progress reports submitted by subrecipients were not fully implemented. During our review of subrecipient monitoring procedures, we noted there was no evidence of review for 41 of 251 quarterly progress reports submitted by community mental health centers. These reports, in part, describe activities employed toward meeting the goals and objectives of the grants. Without proper review, grant money could be spent contrary to project goals and the inappropriate expenditure could go undetected. OMB Circular A-128 requires that recipients of federal grant awards determine whether the subrecipient spent federal assistance funds in accordance with applicable laws and regulations.

Recommendation

We recommend that the Division of Substance Abuse reemphasize procedures to ensure that progress reports be received, reviewed, and followed up in a timely manner.

Agency Response

The Division will institute a computerized report tracking system so that management can verify the receipt and review of all reports as they become due. This will enable Division management to assure documentation of those reviews in a consistent and timely manner. We are confident that this system will successfully address the finding so that the control weakness will be corrected for future audit periods.

26) The Department For Social Insurance Should Improve Controls Over Subrecipient Monitoring Within The Low-Income Home Energy Assistance Program

DSI did not have procedures to ensure that their monitoring responsibilities were discharged in accordance with the requirements of the Low-Income Home Energy Assistance Program (LIHEAP) and OMB Circular A-128. Also, DSI did not always apply alternative procedures that would have allowed DSI to determine compliance with applicable regulations in the absence of a subrecipient audit report.

LIHEAP consists of two main components - energy assistance and weatherization. DSI's Energy Assistance Branch (EAB) administers the weatherization component of LIHEAP by contracting directly with the Community Action Agencies (CAAs). DSI contracted with the Kentucky Association for Community Action (KACA) to assist in the administration of the energy assistance component of LIHEAP moneys throughout the Commonwealth. DSI's contract required KACA to conduct certain monitoring functions and issue reports to DSI. In our testing, we noted that LIHEAP moneys were not adequately monitored for OMB Circular A-128 and program requirements. DSI did not adequately discharge their monitoring responsibilities in that:

- DSI did not complete the review and finalization process for the A-128 audits of three subrecipients (CAAs) in fiscal year 1993 and for five in fiscal year 1994 within 13 months after each entity's year-end.
- DSI did not officially contract with anyone to perform KACA and CAA audit report reviews using the President's Council on Integrity and Efficiency checklist for the year ended June 30, 1996. Although the Office of the Inspector General (OIG) performed the reviews, they were under no obligation to do so and could have refused to perform the reviews at any time.
- The EAB in DSI did not adequately document their review and audit resolution process and thus did not always know either the amount due from each subrecipient or the collective amount due to CFC when contracting with KACA or the CAAs.
- DSI's standard contract with the CAAs did not contain a requirement for the submission of a final audit report within 13 months from the CAA's fiscal year-end. Since CAAs and their auditors are not contractually required to submit a final audit report within a 13-month period, DSI failed to fully comply with OMB Circular A-128.
- DSI did not include two audits to be performed by the OIG on the audit status log. Thus, subrecipients may miss deadlines for audit reports and comments or questioned costs could remain potentially unresolved.

26) The Department For Social Insurance Should Improve Controls Over Subrecipient Monitoring Within The Low-Income Home Energy Assistance Program (Continued)

- DSI did not take action to ensure that KACA complied with contract requirements. Though required in their contract, KACA did not:
 - Monitor CAAs during the subgrant period (July 1995 to June 1996) when monitoring could have been beneficial to the program. Although KACA monitored the CAAs afterwards in August, September, and October of 1996, KACA did not provide complete and accurate monitoring reports to DSI within two weeks of their monitoring as required. Instead, KACA submitted the 12 monitoring reports to DSI in April 1997.
 - Develop a schedule of the monitoring visits planned for each subcontractor.
 - Always submit CAA delegate agreements and amendments to DSI in a timely manner; or
 - Ensure that KACA was reviewing the required 2 percent of case review summaries for energy assistance submitted by the CAAs or even that the CAAs were performing the reviews.
- When DSI administered the weatherization component of LIHEAP by contracting directly with the CAAs, they did not perform contract and fiscal reviews of six CAAs during the year ended June 30, 1996. Furthermore, DSI did not verify that CAAs corrected or reworked problems discovered during the On-Site Dwelling Reviews. Reviewers may re-examine items requiring rework at his/her discretion. However, DSI neither retained documentation of re-checked items, nor maintained a log tracking which problems had been corrected or were in the process of being corrected.

As a primary recipient of federal money, OMB Circular A-128 required DSI to:

- Determine whether the subrecipient spent federal assistance funds provided in accordance with applicable laws and regulations;
- Ensure that appropriate corrective action is taken within six months after receipt of an audit report; and
- Consider whether subrecipient audits necessitate adjustment of the state's own records.

OMB Circular A-133 rescinded Circular A-128 and the prior Circular A-133 effective July 1, 1996 and applies to audits of fiscal years beginning after June 30, 1996. DSI should be aware that they are still responsible for monitoring the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and for achieving performance goals.

26) The Department For Social Insurance Should Improve Controls Over Subrecipient
Monitoring Within The Low-Income Home Energy Assistance Program (Continued)

DSI should ensure that subrecipients expending \$300,000 or more in federal awards during the subrecipient's fiscal year have met the audit requirements of the new A-133 for that fiscal year. Furthermore, DSI should issue management decisions on audit findings within six months after receipt of the subrecipient's audit report; ensure that the subrecipient takes appropriate and timely corrective action; and consider whether subrecipient audits necessitate adjustment of their own records.

The lack of effective monitoring at the state and subrecipient level resulted in DSI's not complying with OMB Circular A-128 and could lead to inappropriate use of federal assistance.

Recommendation

We recommend DSI establish procedures to ensure that subrecipients are monitored in accordance with federal requirements and that contractors comply with contract requirements. This would specifically include:

- a) Not contracting with CAAs that have draft or incomplete audits more than one year old or imposing some penalty upon them to ensure prompt completion and resolution of audit reports.
- b) Contracting with either the OIG, a qualified accounting firm, or a qualified DSI employee to review future KACA and CAA audits.
- c) Using an audit review reconciliation form to document the audit resolution process.
- d) Requiring future contracts between DSI and CAAs include a requirement that the final audit report be submitted to DSI no later than 9 months from the end of the agency's fiscal year as required by OMB Circular A-133.
- e) Adequately tracking all audit reports on the audit status log.
- f) Either imposing penalties if KACA does not meet contract requirements or terminating the KACA contract allowing the EAB to administer energy assistance and weatherization or find another contractor to perform these duties. DSI should also develop a plan of action for any material noncompliance with KACA's contract, which would include written notification to proper Department authorities.
- g) Keeping a log of delegate agreements and amendments received from KACA in order to ensure the accuracy and completeness of DSI records.

26) The Department For Social Insurance Should Improve Controls Over Subrecipient Monitoring Within The Low-Income Home Energy Assistance Program (Continued)

Recommendation (Continued)

- h) Obtaining documentation on how KACA is ensuring that each CAA reviews the minimum 2 percent of cases. Also, DSI should review a sample of the cases reviewed and problems identified by KACA to ensure that reviews are being adequately performed and problems are being resolved.
- i) Documenting the follow-up of CAA technical review findings to ensure that the CAAs have satisfactorily reworked items as necessary. The Summary of Visit form sent to CAAs should indicate the status of items for which the reviewer previously indicated that rework was necessary. We also recommend DSI keep a log indicating the current status of items requiring rework.

Agency Response

a), b), c), and e) Since there are program specific schedules over and above those schedules required by the OMB Circulars, DSI will contract with an independent audit firm or use Cabinet auditors to perform additional audit activities.

a) and c) The EAB reviews all weatherization schedules, maintains a log of audit reviews and reconciles all differences between the EAB's records and the audit. The log shows the amount +/- but will be amended to include the collective amount.

d) The contracts for 1998-99 between DSI and the CAAs to operate the weatherization component of LIHEAP will contain language specific to the 13-month final audit requirement.

f) Corrective action has been taken regarding the timely submittal of LIHEAP monitoring reports by clearly defining in the contract the timeframe that the CAA's be monitored, December 1 - March 31, 1998. A new LIHEAP coordinator has been hired by KACA who has submitted monitoring reports for '97 that are more thorough, accurate, and timely.

g) EAB is aware 2 delegate agreements were never received. A log of all delegate agreements and amendments has been/is maintained by EAB.

h) DSI monitors review the 2 percent case review summaries during the monitoring of KACA to ensure that such reviews have taken place. EAB staff does not think it would be cost effective or necessary to receive copies of such.

26) The Department For Social Insurance Should Improve Controls Over Subrecipient Monitoring Within The Low-Income Home Energy Assistance Program (Continued)

Agency Response (Continued)

i) The EAB acknowledges not performing on-site program reviews of six CAAs during the 1995-96 contract year due to extraordinary training needs for contractor heat system evaluators and technicians. However, all CAAs received monthly fiscal oversight through conducting the normal monthly invoicing and activity reporting process. Corrective action was taken by the Branch for the 1996-97 contract year and each CAA received an on-site program review.

Verifying corrections of all problems concerning work quality or omissions discovered at client dwellings during an on-site review would be tremendously time consuming or sometimes not a cost effective expenditure of program funds to require returning to a completed dwelling for a minor correction. Documenting all findings enables the Branch to determine performance trends that indicate program management problems or staff training needs. In response to the auditor's comments at the exit meeting, a system has been developed for implementation during the 1997-98 contract that will ensure work-related findings jeopardizing the client's health and safety or findings that can be cost effectively corrected are addressed. A form describing the finding with a correction deadline date is signed by the Branch and CAA representatives and given to the CAA after the on-site review. The form is again signed by the CAA representative upon work completion and submitted to the Branch to verify the corrective action was performed.

Auditor Response

g) Keeping delegate agreement/amendment log for the purpose of ensuring that DSI receives all delegate agreements/amendments. If delegate agreements/amendments are not received, appropriate actions, such as specifically requesting the delegate agreements/amendments from KACA, should be taken.

h) The Home Energy Assistance Program Contract Compliance/Program Management Review of KACA for the fiscal year ended June 30, 1996, contained questions relating to the 2 percent of case review summaries. However, addressing the 2 percent of case reviews on the present monitoring instrument is not sufficient. We recommend DSI consider either:

Expanding the case review section of the monitoring instrument to more clearly document that KACA performs 2 percent of case reviews, records problems discovered, and requires the CAA to take necessary corrective actions by including a check of the case reviews received and reviewed by KACA; or

Assigning DSI personnel to review a sample of cases reviewed by CAAs to ensure case reviews are being performed.

26) The Department For Social Insurance Should Improve Controls Over Subrecipient Monitoring Within The Low-Income Home Energy Assistance Program (Continued)

Agency Response (Continued)

Section 1.29 of DSI's contract with KACA states that KACA will "assure that each week, the chief executive officer or designee of each subcontractor will review a minimum of 2 percent of all cases to assure appropriate case activity. Summaries of the cases reviewed and problems identified shall be provided to the Second Party for immediate review so that the Second Party may take appropriate action to resolve any problems identified and to ensure the appropriate number of cases were reviewed."

27) The Department For Social Services Should Improve Its Audit Tracking And Review System

DSS, as a primary recipient of federal funds, makes subcontracts or subawards to subrecipients. As the oversight department, DSS must ensure subrecipients are complying with applicable federal regulations governing the funds distributed. These federal regulations require audit reports and schedules. These reports should include specific types of information and opinions. Part of the oversight function is to ensure auditors are submitting audit reports that comply with federal regulations. This could be accomplished by developing an adequate tracking system and using an audit review guide which would assist in identifying any deficiencies in the audit report.

As part of our testing of the Social Services Block Grant (SSBG), we noted that commendable improvements in the audit tracking system had been made since the previous year. However, our tests determined the following weaknesses remained:

- The tracking system used by the Contracts Branch in reviewing subrecipient audit reports did not include recording the date the audit was received, making it difficult to determine whether the report was received by the due date and whether the audit was reviewed timely. The tracking system is continually being improved upon. However, the importance of recording the date the audit was received has been overlooked.
- For audits that had been reviewed, an accepted review guide was not utilized. Program management staff stated that they have studied using an accepted audit review guide and determined using such a guide would be very time consuming. As a result, the performance of other required duties would be neglected or delayed if a review guide were used.
- Six of seven audits tested for subrecipients providing Day Treatment and Chapter I services had not been reviewed for the FY 95 contracts. When Contracts received these audits, they did not review them because the audits were not closed.

27) The Department For Social Services Should Improve Its Audit Tracking And Review System (Continued)

- Two of the seven audit reports did not include the correct CFDA numbers. One audit did not list the SSBG contract on the Schedule of Federal Financial Assistance. Since review of these audits was not performed, no one detected these problems. Failure to establish procedures which ensure the audits of SSBG contract funds include correct information, may result in funds being unaudited and lessens the assurance that funds were spent in accordance within federal regulations.

As part of our testing of the Child Care Development Block Grant (CCDBG), we noted the following weaknesses for the 23 providers tested:

- Nine audit reports were not received timely,
- Fourteen findings and questioned costs may not have been addressed in a closure letter,
- Fourteen appropriate actions may not have been taken for deficiencies; and
- Fourteen findings and questioned costs may not have been resolved within six months of receipt of the report.

The majority of weaknesses resulted because seven audit reports and six closure letters could not be located in the audit report folders and two draft audit reports were received more than 13 months after the year end. Audit reports and closure letters that could not be located are considered exceptions. Furthermore, the system used to track the CCDBG audit reports was not kept up-to-date. It did not identify the amount of the contract awarded, the federal program name, or the CFDA number.

Also, DSS did not perform a documented review of subrecipient audit reports in accordance with an established review guide. In some instances, other state agencies (the Kentucky Department of Education {KDOE} reviewed Board of Education audits, and the Department of Local Government reviewed the Area Development District {ADD} audits) performed this review on audit reports received by DSS. However, DSS did not obtain any documentation from those state agencies that the audit reports complied with federal regulations. Without that documentation, DSS could not ascertain the adequacy of the audits submitted.

An inadequate tracking system may result in audits being filed late or not at all, inadequate reports, and lack of closure within federal guidelines. Further, an inadequate audit tracking system makes it difficult to determine whether: findings and questioned costs were addressed in the closure letter; action was taken to address deficiencies discovered; findings and questioned costs were resolved within six months of audit report receipt; and the subrecipient met the applicable audit requirements.

27) The Department For Social Services Should Improve Its Audit Tracking And Review System (Continued)

Also, without a thorough review of the audit reports using an audit review guide, DSS cannot be sure that subrecipient audit reports are complying with federal regulations. If the audit reports do not comply with federal regulations, it is possible the supporting audit workpapers did not adequately address all areas required by federal regulations. Also, failure to establish procedures to ensure the audits include correct information and can be reconciled, may result in funds being unaudited and lessens the assurance that funds were spent in accordance with federal regulations.

OMB Circular A-128 requires the primary recipient to determine whether subrecipients have met the audit requirements of A-128 and, where applicable, A-133. These requirements include:

- Ensuring the subrecipients have met the audit requirements of A-128 or A-133;
- Determining whether the subrecipient spent federal assistance funds provided in accordance with applicable laws and regulations. This may be accomplished by reviewing an audit of the subrecipient or performing program reviews; and
- Ensuring that appropriate corrective action is taken within six months after receipt of the audit report in instances of noncompliance with federal laws and regulations.

Recommendation

We recommend DSS establish procedures which:

- Adequately track the progress of audit reports, including whether they are closed or not and including the date the subrecipient audits are received.
- Review and resolve all audits on a timely basis and in accordance with OMB Circular A-128. An audit review guide should be utilized to assist in discovering audit deficiencies such as the use of incorrect CFDA numbers and the omission of contracts on the Schedule of Federal Financial Assistance.
- Perform in-depth reviews of audits utilizing an accepted review guide and/or obtain from other state agencies documentation that they have performed the review and the audit complies with federal regulations.
- Ensure all contracts are listed correctly in the subrecipient audit reports.

27) The Department For Social Services Should Improve Its Audit Tracking And Review System (Continued)

Agency Response

Relative to SSBG:

Due to personnel changes, the responsibility for audit closure has been assigned to the Fiscal Management Branch. The Branch is in the process of reviewing the tracking system and review procedures to determine the most efficient method of ensuring that all documentation is available.

Relative to CCDBG:

We concur with the auditor's finding that the absence of a comprehensive tracking system of audit reports is the cause for the stated non-compliance issues. In addition to the lack of an automated, comprehensive system, this situation has been further compounded by this particular job responsibility being transferred among several staff over the past two years (staff that were tracking audits are no longer in those positions and each staff loss has resulted in someone having to add this function to his existing workload).

The plan is to create an internal audit tracking guide (p.c. based). Items that would be incorporated into the guide would include identifying information (contractor name, amount of contract, program name, CFDA number, etc.); the due date of the audit; the date of audit receipt; date of DSS review completion; status of the audit; need for subrecipient audit; and need for and status of corrective action.

28) The Department For Social Services Should Ensure That Monitoring Of Day Treatment And Chapter I Programs Is Performed

During our test of subrecipient monitoring in the SSBG program, we determined that monitoring of the FY 95 contracts for the Day Treatment and Chapter I programs, which had been performed in previous years by the Systems Administration Branch, had not been done. This monitoring had included site visits of the subrecipients during which the monitor verified whether the documented number of days of service was at least the number of days that had been contracted and paid for by the Department.

DSS makes subcontracts or subawards to subrecipients. As the oversight department, DSS must ensure subrecipients are complying with applicable federal regulations governing the funds distributed. Part of this assurance comes from the monitoring of the day-to-day activities of subrecipients that are paid on a fixed price basis, that is the subrecipient is reimbursed a fixed price per day for every day a service is provided. Services contracted for under this basis of reimbursement include Day Treatment and Chapter I.

28) The Department For Social Services Should Ensure That Monitoring Of Day Treatment And Chapter I Programs Is Performed (Continued)

Because of the lack of monitoring, DSS failed to review the audit reports submitted for the subrecipients providing the Day Treatment and Chapter I Services. Review and correction of any deficiencies found in the audit (discussed above in Comment 27) along with reports documenting the results of the monitoring described above are required for closure of the audit.

DSS personnel stated that, beginning in FY 95, this monitoring was not performed because the Systems Administration Branch lacked the staff to perform the monitoring of these programs. Program Management never reached a decision as to who would do the monitoring.

Due to the absence of this monitoring effort, DSS was unable to determine whether the number of days of service paid for by the Cabinet equaled the actual number of days a service was provided and whether the subrecipient was in compliance with federal regulations.

The absence of a thorough review of the audit reports prohibits DSS from determining if the audit reports were prepared in accordance with federal regulations. If the audit reports do not comply with federal regulations, it is possible the supporting workpapers did not adequately address all areas required by federal regulations.

OMB Circular A-128 requires the recipient to determine whether the subrecipient spent federal assistance funds provided in accordance with applicable laws and regulations. This may be accomplished by reviewing an audit of the subrecipient or performing program reviews. In the case of the Day Treatment and Chapter I programs, neither of these monitoring functions was being performed.

Recommendation

We recommend DSS establish procedures which:

- Will ensure subrecipients are monitored in a timely manner in order to determine the accuracy of the number of days of service reported and to promote prompt review and closure of the related audit reports.
- Include performing timely in-depth reviews of audits utilizing an accepted audit review guide to determine whether the audit complies with federal regulations.

Agency Response

Management is currently reviewing duties and will soon recommend a reorganization that will ensure that all essential functions are performed.

Note: The Day Treatment and Chapter I programs are now in the Justice Cabinet, Department of Juvenile Justice.

29) The Cabinet For Families And Children Should Enforce Contract Compliance With
Glasscock McMullen Management Services Corporation In The Food Stamps Program

Based on the “Actual Issuance” reported on the FNS-250, Food Coupon Accountability Report, that is submitted monthly to USDA’s Food and Consumer Services, the Commonwealth of Kentucky issued \$417,255,481 (excluding any adjustments) in Food Stamp benefits for the year ended June 30, 1996. Glasscock McMullen Management Services Corporation (hereinafter referred to as GMc) issued \$87,870,414 (21.06 percent) of that amount. With GMc having such a large responsibility, it is critical that the Cabinet for Families and Children monitors the relative contract compliance carefully. In our testing of food stamp issuance and inventory, we noted instances that indicate that GMc was not fully complying with contract terms.

During our June 30, 1997, visits at the GMc food stamp issuance sites, GMc personnel at the Jefferson County’s South 26th Street issuance site refused to give us access either to the Authorization To Participate (ATP) system or the dollar amount of the food stamps issued for the day. While attempting to verify the stamps on hand at year end at the above-mentioned site, a GMc employee said “We were told not to give you any information or to help you during your audit.”

On July 3, 1997, we visited GMc’s Buechel Bank Road issuance site located in Jefferson County. During our visit, we noted that **all** food stamp issuance (FS-11s) and safe inventory (FS-5) records had been removed from the site prior to our visit. Because no issuance or inventory records were present during our audit, we had to request all inventory records from CFC. Even after CFC requested the records, GMc was reluctant to send them to CFC so we could complete our audit work.

Because of GMc’s failure to comply with contractual provisions, we were unable to verify inventory issuance during our visits at the above-mentioned issuance sites. GMc’s refusal to give us access to pertinent inventory information is a violation of Section 40.500 of its contract with CFC and of KRS Chapter 43 and 7CFR - Section 3015.24.

Failure to maintain inventory records at an issuance site could result in the recording of incorrect inventory balances. For example, the previous day’s ending inventory balance becomes the succeeding day’s beginning inventory balance. Without the Wednesday, July 2, 1997, FS-11 inventory record, it is questionable how the site manager determined the beginning balance for the next day’s issuance - Thursday, July 3, 1997.

We also noted during our visits at the Jefferson County Buechel Bank Road site and at the Kenton County site that GMc failed to maintain adequate staffing so as to provide needed lunch and comfort breaks to issuance personnel. We noted the manager left the issuance site, leaving an employee unattended at the Kenton County issuance site. While at Buechel, we noted only two employees were present during one of the busiest issuance days of the month, thus inhibiting either of the employees from taking a break.

29) The Cabinet For Families And Children Should Enforce Contract Compliance With
Glasscock_McMullen Management Services Corporation In The Food Stamps Program
(Continued)

Failure to maintain adequate staffing levels at the issuance sites violates Section III of CFC's Issuance Procedures manual (attached to the contract) and increases the risk of food stamp inventory theft.

GMc's failure to cooperate with the audit process necessitated the performance of alternate audit procedures, prolonging audit time and increasing audit costs by approximately \$4,000 for the Cabinet.

Section 40.500, "Termination of Contract," of the State's contract with GMc, subsection 5 states, "State may, at its discretion, at any time during the normal contractor business hours, without advance notice, audit the contractor's records and internal operations and bank accounts at the contractor's central administrative office, its issuance site(s) and elsewhere for the purpose of ascertaining the amount and value of coupons on hand and otherwise determining the extent of compliance by the contractor with directions issued pursuant thereto...."

The Issuance Procedures manual, Section IV., "Procedures and Controls for Issuance of Food Coupons," subsection A., "Daily Opening Procedures," states, "The ending inventory verified by the physical count is used for the beginning inventory for the next day."

The Issuance Procedures manual, Section III., "Daily Opening and Closing Procedures," subsection B., "Comfort Breaks," provides, "There must be two employees present at all times, therefore, three employees are required to provide comfort breaks and lunch."

Recommendation

We recommend CFC:

- Monitor GMc's compliance with contract terms. Instances of failure to comply should be discussed with the vendor and, if appropriate, be taken into consideration in determining if the contract should be terminated.
- Make clear to GMc that auditors conducting an audit of CFC's federal programs should be afforded the same access to issuance sites and records therein as is afforded to CFC. That provision should be included in any future contracts, and, if necessary, included as an amendment to the current vendor contract.
- Ensure that GMc informs all employees of laws and regulations for which GMc's compliance is required; GMc cannot comply with laws, regulations, and contract provisions if their employees are uninformed. Therefore, we recommend that all laws, regulations, and contract provisions for which GMc is to comply be posted or otherwise made available to all employees at each issuance site.

29) The Cabinet For Families And Children Should Enforce Contract Compliance With
Glasscock McMullen Management Services Corporation In The Food Stamps Program
(Continued)

Recommendation (Continued)

- Ensure that GMc maintain sufficient personnel to ensure compliance with Section III. of the Issuance Procedures Manual.

Agency Response

We are in agreement with the recommendation. On September 3, GMc corporate officials met with Division staff. During this meeting, we agreed not only would Operation Support Branch continue to conduct annual site reviews for compliance, but would be accompanied by Management Review Offices (MRO's) to independently determine contract compliance.

GMc corporate officials are aware of their contractual responsibilities for providing access to issuance site records. Based on their explanation of what occurred during the recent audit, it appears to have been a matter of a timing problem. GMc corporate officials were advised of the requirement to provide access to issuance records. They respectfully requested to be present during future audits. They are not requesting advance notice of audits, but are asking for reasonable notification. We would point out that we mandate that their monthly FCS 250 report be in our office by the fifth day of the month following the close of the prior issuance month. That is one reason why issuance records were retrieved from the issuance sites.

GMc corporate officials stated that each employee is required to read and sign off on an employee manual. This manual addresses state and federal requirements pertaining to job responsibilities of GMc Corporation and of the State Agency. DSI's Operation Support Branch (OSB) and MROs will monitor this procedure and if further explanations are needed, we will develop the material.

Based on a written explanation by GMc corporate officials, we feel they are in compliance with Section III of the Issuance Procedures Manual. It appears an employee of GMc had quit prior to the audit and they had not yet replaced the employee. Again, this will be monitored by OSB and MROs to determine if modification is warranted.

29) The Cabinet For Families And Children Should Enforce Contract Compliance With
Glasscock McMullen Management Services Corporation In The Food Stamps Program
(Continued)

Auditor Response

This is an ongoing problem that has been observed at the various GMc issuance sites. CFC must enforce compliance with Section III of the Issuance Procedures Manual which says, "procedures must be followed without exception in assuring the security of inventory and personnel....There must be two employees present at all times, therefore, three employees are required to provide comfort breaks and lunch." We understand there are going to be instances when employees are not available for work or must leave the issuance office during working hours. Therefore, to ensure compliance with the contract, GMc must have back-up employees available, which is possible either through hiring additional employees or through the use of a temporary employment service.

30) An Accounting System Should Be Developed To Provide Control Over Kentucky Kare
Transactions

The Personnel Cabinet had not established a system to accumulate and control accounting information relative to all facets of the Kentucky Kare Plan. There was not an adequate centralized system for accumulating, safeguarding, monitoring, and recording financial and membership information. Rather, financial and membership information was accumulated from a variety of sources within the Cabinet and TPAs with little oversight or monitoring of the information. Then, it was given to an independent contractor to compile the financial statements. By not having proper controls over the records, management's access to information necessary for decision making has been compromised. In addition, irregularities and funding problems may not be identified in a timely manner.

Due to the Cabinet's Division of Benefits Administration's lack of a centralized Kentucky Kare accounting system, the Plan's activity in STARS was not given to the contractor who compiled Kentucky Kare financial statements. Thus the STARS' activity was not included in the financial statements.

According to KRS 18A.2282(5)(a), the Plan's financial statements must be verified annually by the Auditor of Public Accounts. An effective accounting system is necessary for the verification to occur.

Recommendation

We recommend a knowledgeable and responsible accountant implement proper accounting controls over the Plan's financial and membership data. The accountant should, at a minimum, ensure the accuracy of receipts and expenses, maintain a general ledger, prepare a monthly trial balance, and monitor the TPA's activity. This individual should also prepare year-end statements.

30) An Accounting System Should Be Developed To Provide Control Over Kentucky Kare Transactions (Continued)

Agency Response

Kentucky Kare acknowledges the need for all the actions called for in this recommendation, and has been working over the last few months to implement all aspects of the recommendation. An accountant has been hired to be responsible for the overall Kentucky Kare accounting system (which includes all actions recommended, including the STARS activity). Kentucky Kare will have these in place prior to the audit of 1996-1997 financial records.

31) The Personnel Cabinet Should Implement Procedures To Monitor Third-Party Administrators

The Cabinet's Division of Benefit Administration did not adequately monitor the expenditures made by its TPAs relative to the Kentucky Kare Plan. The TPAs withdrew funds from the Kentucky Kare Plan's accounts to pay pharmacy, administrative fees, utilization, subrogation, and other miscellaneous expenses. During the audit period, the Cabinet did not monitor these withdrawals to ensure the payments were proper. This lack of monitoring led to TPAs being paid twice. These overpayments occurred from January 1995 to August 1995, and amounted to \$138,714. This lack of monitoring increases the possibility of errors going undetected.

The Cabinet is assigned responsibility for moneys coming into and paid out of the state employee benefit fund by KRS 18A.2282 (1).

Recommendation

We recommend that the Division develop procedures to verify payments made by TPAs and obtain refunds plus interest for overpayments.

Agency Response

See Comment Number 30.

32) The Personnel Cabinet Should Require The Third-Party Administrator To Obtain A Service Center Audit Of Its Computer Application

The Personnel Cabinet uses a TPA to process all the Kentucky Kare Plan's claims; however, the Cabinet did not obtain assurance that the TPA's general and application controls over the computer system were operating properly. When a TPA's computer system has such an impact on the financial activity of an entity, the Cabinet should require that an independent verification of the system be obtained. In the absence of an independent verification, the Cabinet cannot be certain that the controls are functioning properly. Also, the Cabinet cannot ascertain the completeness and accuracy of data received, nor whether payments are within the contractual guidelines.

32) The Personnel Cabinet Should Require The Third-Party Administrator To Obtain A
Service Center Audit Of Its Computer Application (Continued)

Recommendation

We recommend the Cabinet require the TPA obtain independent verification of the computerized claims processing system in accordance with Section AU 324 of Codification of the Statements on Auditing Standards. We further recommend the Cabinet incorporate this requirement into the contract with the TPA.

Agency Response

Pursuant to an Advice of Change, effective January 1, 1997, the TPA agreed that a third party will audit their computer systems and that Kentucky Kare will be provided copies of that audit giving attention specifically to the processing of all Kentucky Kare claims. The TPA, in addition, will pay all expenses related to the audit. The contract was amended on October 1996 with an effective date of January 21, 1997.

33) The Department Of Military Affairs Should Strengthen Its Procedures For Monitoring
Subrecipients

We noted several significant weaknesses in the Department of Military Affairs' Division of Disaster and Emergency Services' (DES) procedures for monitoring subrecipients for the year ended June 30, 1996, which resulted in the agency's noncompliance with certain monitoring requirements of the Single Audit Act, OMB Circular A-128 and the State's Administrative Plan for the Public Assistance Program.

Tracking System – The agency was not consistent in identifying those subrecipients who received \$25,000 or more in federal financial assistance and, thus, were required to submit an audit report to Military Affairs, DES, for FY 94, 95, and 96. For FY 94, the agency identified the amounts disbursed to counties under all DES programs on one listing and the amounts disbursed to all subrecipients under the Disaster Assistance Program on a separate listing. For FY 95, the agency only identified those payments made to all subrecipients under the Disaster Assistance Program. For FY 96, the agency identified on separate listings those amounts passed to subrecipients under all federal programs and those amounts passed to subrecipients under each Disaster Assistance Program grant.

For FY 94, we noted 11 instances in which counties received \$25,000 or more in federal assistance from DES as a whole but less than \$25,000 from the Disaster Assistance Program. Of these 11 counties, DES did not receive the required audit reports for five of the counties. Because the listing was not maintained on an agency-wide basis for FY 95, the auditor could not determine if there were subrecipients who were required to, but did not submit, audit reports to DES. For FY 96, the auditor could not yet make this determination because audit reports are not due until 13 months after the end of the fiscal year.

33) The Department Of Military Affairs Should Strengthen Its Procedures For Monitoring Subrecipients (Continued)

The agency's tracking system for required audit reports did not include the date audit reports were due and the date findings and questioned costs (if any were noted) were resolved by the agency. Thus, the agency did not take appropriate action on those subrecipients who submitted reports late or provide evidence that findings or questioned costs were resolved within six months of receipt of the report.

We also noted two instances (one for FY 95 and one for FY 96) where the subrecipient received more than \$25,000 in disaster assistance funds but was not included on the tracking list of subrecipients required to submit an audit report.

Review of Audit Reports – For all items tested, the audit reports were not received within 13 months after the end of the fiscal year. As a result, audit reports were not being reviewed in a timely manner. Furthermore, any necessary corrective action would not be timely.

We noted eleven instances in which the audit report file did not contain a “Desk Review Guide” as evidence the audit report had been reviewed. None of the 11 were reviewed in accordance with the “Desk Review Guide for Single Audits”; however, 9 of the 11 were county audit reports which had been reviewed to determine if any noncompliances were noted.

Because the majority of the money received under CFDA# 83.516-Disaster Assistance flows through to subrecipients, it is imperative that monitoring of these subrecipients be done to ensure that federal moneys are expended in accordance with applicable laws and regulations and within the terms of the grant agreements.

Under the requirements of the Single Audit Act, each state and local government subject to the audit requirements of the Act, which receives federal financial assistance and provides \$25,000 or more of such assistance in any fiscal year to a subrecipient, shall–

“(A) if the subrecipient conducts an audit in accordance with the requirements of the Act, review such audit and ensure that prompt and appropriate corrective action is taken on instances of material noncompliance with applicable laws and regulations with respect to Federal financial assistance provided to the subrecipient by the State or local government; or

“(B) if the subrecipient does not conduct an audit in accordance with the requirements of the Act–

“(i) determine whether the expenditures of Federal financial assistance provided to the subrecipient by the State or local government are in accordance with applicable laws and regulations; and

“(ii) ensure that prompt and appropriate corrective action is taken on instances of material noncompliance with applicable laws and regulations with respect to Federal financial assistance provided to the subrecipient by the state or local government.”

33) The Department Of Military Affairs Should Strengthen Its Procedures For Monitoring Subrecipients (Continued)

Furthermore, OMB Circular A-128 also provides that the primary recipient should:

- Determine whether state or local subrecipients have met the applicable federal audit requirements.
- Determine whether the subrecipient has controls in place to ensure that federal financial assistance is being expended in accordance with applicable laws and regulations.
- Ensure that appropriate corrective action is taken within six months after receipt of a subrecipient's auditor's report that identifies reported instances of noncompliance with federal laws and regulations.

According to the State's Administrative Plan for the Public Assistance Program:

- The Governor's Authorized Representative (GAR) assures that the grantee and subgrantees perform audits in accordance with the Single Audit Act on a timely basis.
- The GAR reviews audits performed on the grantee and subgrantees by completing the "Uniform Desk Review Guide for A-128 Single Audits" or the "Desk Review Guide for Program Audits." If adverse findings affecting disaster payments are reported, the GAR assures that appropriate action is taken and reports that action to FEMA.

Recommendation

We recommend the Department of Military Affairs implement the following procedures to strengthen its controls over the monitoring of subrecipients to ensure all applicable audit requirements are met, corrective action is taken when necessary and reviews of audit reports are performed timely and properly documented:

- Develop and maintain an agency-wide control listing which identifies federal moneys passed through to subrecipients during the fiscal year under each federal program, in order to determine which subrecipients require an audit and what type of audit is required. This listing should include the federal program names, CFDA numbers, and amounts.
- Modify the audit report tracking system to include the date reports are due, the date reports are received, and documentation of correspondence relating to findings and questioned costs. The system should ensure all subrecipients required to submit an audit are included on the audit tracking lists.
- Review all subrecipient audit reports in accordance with either the "Desk Review Guide for Single Audit Reports" or the "Desk Review Guide for Program Audits" and maintain documentation of such reviews.
- Take action to review all subrecipient audit reports in a timely manner.

33) The Department Of Military Affairs Should Strengthen Its Procedures For Monitoring Subrecipients (Continued)

Agency Response

The Department of Military Affairs has/or will implement procedures to strengthen our controls over the monitoring of subrecipients to ensure all applicable audit requirements are met.

34) The Kentucky Health Purchasing Alliance Should Establish Monitoring Procedures For Its Third-Party Administrator

KRS 304.17A-020 gave the Kentucky Health Purchasing Alliance (KHPA) the responsibility for administering the health insurance program for the Commonwealth. To assist them in this endeavor, KHPA hired a TPA to collect premiums from participants and distribute these collections to health insurance providers. As part of our agreed-upon procedures work with the TPA and the Alliance, we noted the following weaknesses in internal control:

- The TPA failed to establish an accounting system which identified and tracked the amount of premiums due to health insurance providers. According to KHPA, for an extended period of time the TPA made payments to health insurance providers based on their estimated percentage share of the total pool. Thereafter, the payments were made only for those participants whose information from the provider agreed to the TPA records. The TPA did not develop accounting system or reconciliation procedures that would have facilitated the proper payment to health insurance providers.
- KHPA did not establish a monitoring procedure to ensure that the TPA retained all necessary supporting documentation. We noted several instances where the TPA could not produce deposit records and participant applications to support accounting transactions. Without these records, KHPA could not be sure that the amounts collected were proper and the coverages requested by participants were correct or legitimate.
- KHPA did not establish a monitoring procedure to ensure that the applications submitted by participants agreed to the information recorded in the TPA's accounting system. We tested 30 applications and found one instance where the information recorded on the application did not agree to information within the system.
- KHPA did not establish a monitoring procedure to ensure that the rates charged to an employee agreed to the pre-established rates. We tested 30 applications and found one instance where the rate charged for a rider did not agree to the rate tables. If payments do not agree to the rates, participants may be charged incorrect premiums and providers may be paid an incorrect amount.

34) The Kentucky Health Purchasing Alliance Should Establish Monitoring Procedures For Its Third-Party Administrator (Continued)

- KHPA did not establish a monitoring procedure to ensure the TPA maintained individual payment records for participant employees of cities and health departments. Without that detailed information, neither the TPA nor KHPA could demonstrate that those entities had submitted the proper premiums. The failure to maintain proper detail records precluded our verifying that the participants paid the correct rate for the proper coverage.
- KHPA did not establish a monitoring procedure to determine whether payments from public groups were being received timely. We noted one instance where a school had not paid its premiums for over eight months. Also, we noted 18 instances where public entities were late with their monthly payments. Allowing entities to continuously submit late payments interrupts payment cycles and could create cash flow problems.
- KHPA did not establish a monitoring procedure to verify on a test basis the TPA's reconciliation of discrepancies. A discrepancy is defined as the difference between the amount paid by the participant employer to the TPA and the amount billed. Our testing indicated the following:
 - The TPA did not document the reconciliation performed for fiscal court and health departments;
 - The TPA's reconciliation for school districts did not agree to the billing records sent;
 - The amount billed per the TPA's on-line computer system did not agree to the billing statement or billing disk sent to the participant employers;
 - We noted an instance where a deceased employee appeared on the bill several months after death and an instance where the bill listed an employee who had never worked for the school system;
 - We noted instances where participants had no change in status or coverage, yet the amount billed changed;
 - We noted instances where participants changed their status, but we could not verify the subsequent change in rates; and
 - We noted instances where participants had resigned but had not been removed from subsequent bills.
- KHPA did not establish a monitoring procedure to review the expenditures made by the TPA. We noted an instance where a check amount did not agree to the check register or the supporting documentation, instances where payments were made on a manual basis and were not entered into the computer system, and instances where expenditures did not agree to or have proper supporting documentation. Also, there was no documentation that payments had been properly reviewed or approved by TPA management.

34) The Kentucky Health Purchasing Alliance Should Establish Monitoring Procedures For Its Third-Party Administrator (Continued)

- KHPA did not establish a monitoring procedure to review the transfer of moneys between bank accounts and to review the charges posting to these accounts. We noted several transfers between accounts and could not, in four cases, determine the necessity of these transfers; nor was it evident that KHPA was monitoring the movement of these funds. We noted a \$100.87 debit memo recorded on the bank statement which the TPA could not explain. Also, KHPA had not required the TPA to establish a check write-off policy.
- KHPA did not establish a monitoring procedure to review the activity in the Shortfall Bank Account. This account was established to account for the \$2.50 monthly surcharge levied against all employees working for the Commonwealth, school boards, and retirement systems. However, we noted this account was not restricted to the deposit of this surcharge. Premium deposits, transfers to investment account, credit memos, error corrections, transfers to other accounts, bank charges, withdrawals, returned deposit items, and the TPA fee all impacted this account. Failure to properly monitor bank accounts could lead to unauthorized withdrawals.

Sound accounting practice is based on the basic premise that public officials and others entrusted with public resources are responsible for establishing and maintaining controls to ensure that resources are safeguarded and reliable data are obtained, maintained and fairly disclosed.

Recommendation

We recommend KHPA:

- Require the TPA to establish an accounting and reconciliation system that, at a minimum:
 - Allows for the timely determination and payment of amounts due to providers;
 - Maintains detailed records by participant;
 - Ensures participant information is recorded properly and in a timely manner;
 - Ensures proper premiums are received from participating entities in a timely manner;
 - Provides information to KHPA on a periodic basis. KHPA should stipulate the timing and content of that information; and
 - Establish penalties for entities which fail to submit premiums on a timely basis.

34) The Kentucky Health Purchasing Alliance Should Establish Monitoring Procedures For Its Third-Party Administrator (Continued)

Recommendation (Continued)

- Establish monitoring procedures that ensure:
 - Proper retention of accounting records, including deposit information and applications;
 - Rates charged to participants agree to pre-established rates;
 - Maintenance of accounting records on an individual level for health departments and cities;
 - Timely payment of premiums by all entities;
 - Discrepancy reconciliations are monitored for accuracy, supported by documentation, timely and consistent;
 - Payments by the TPA are supported, reviewed and proper;
 - Movement of funds by the TPA are reviewed and approved; and
 - Bank accounts are reviewed and controlled.

Agency Response

The Alliance strongly objects to any indication that the Alliance did not attempt to monitor any and all activities of the TPA required by the contract. The Alliance further affirmatively states that the Alliance made numerous attempts to make the TPA comply with the terms of the contract. The Alliance terminated its contract with the TPA and has commenced litigation against the TPA claiming, inter alia, breach of contract.

35) The Department Of Education Should Develop Internal Control Procedures Which Reconcile Employer Share Between School District Records And Amount Billed By HealthPlan Services, Inc.

We reviewed the payments for the employer's share of health insurance made to HealthPlan Services, Inc., (the TPA of the Kentucky Health Purchasing Alliance) by KDOE, and noted the following weaknesses:

- KDOE did not perform a written reconciliation between the number of employees certified as eligible by the school districts and the number of employees billed to KDOE by HealthPlan Services, Inc. (HPSI). Without a documented reconciliation, KDOE could not determine if the correct amount was paid to HPSI.
- KDOE did not track the adjustments on each month's bill to verify that each school district was being credited or charged for changes due to termination, new employees, or plan changes. KDOE did not ensure that these changes were in fact made to the school's worksheet and the HPSI bill.
- Fifty-eight school districts did not submit their worksheet for two or more months for the months prior to January 1997. The school district used this worksheet to certify the total number of employees during the month, including terminations, changes and additions. KDOE did not develop internal controls which ensured that each school district submitted their monthly worksheet for state eligibility.

Good internal controls require management to establish procedures which would require the reconciliation of billings, track changes within the system and require the timely submission of supporting documentation.

Recommendation

We recommend that KDOE:

- Develop a computer worksheet that compares the number of eligible employees each district certifies on its worksheet to the number billed by HPSI (As of July 1, 1997, these duties have been assumed by another TPA, United Chambers).
- Calculate the correct amount to pay based on the certified numbers provided by the school districts.
- Track all adjustments to determine if United Chambers has given the proper amount of credit or charged for previous shortages.
- Develop procedures which ensure all worksheets for state eligibility have been received in a timely manner.

35) The Department of Education Should Develop Internal Control Procedures Which Reconcile Employer Share Between School District Records and Amount Billed By HealthPlan Services, Inc. (Continued)

Agency Response

KDOE currently monitors all LEAs (Local Education Associations) with over 500 employees. We will enlarge this process to include all LEAs. Additional effort will be made to get worksheets on time, and we will send to United Chambers a monthly review of our comparison. We will require United Chambers to respond in writing to differences found, and adjustments will be made on future billings.

With all school districts now on MUNIS, beginning January 1998 districts will send a diskette to United Chambers showing eligible employees and LEA payment. At the same time the LEAs will send a copy of this file to KDOE. KDOE will spool these files into a master billing tape to use to pay United Chambers. Adjustments to this file will be between the LEAs and United Chambers. We will only pay adjustments verified by LEAs. LEAs will still be required to send worksheets to this office for file.

OTHER MATTERS:

36) Internal Controls Over The Receipt Function Should Be Improved

Weaknesses in controls over the receipt function were noted at the following state agencies:

Petroleum Storage Tank Environmental Assurance Fund

The Kentucky Revenue Cabinet's Motor Fuels Tax Section provides the Office of the Petroleum Storage Tank Environmental Assurance Fund (Fund) with the amount of total receipts, net of refunds, collected monthly by the Revenue Cabinet on behalf of the Fund. These receipts are subsequently transferred to the Fund by the Finance and Administration Cabinet through a journal voucher. We noted that the Finance and Administration Cabinet transferred gross receipts, rather than net receipts, to the Petroleum Storage Tank Environmental Assurance Fund. This resulted in \$4,725,237 being transferred in excess of the amount due to the Fund. In addition, The Petroleum Storage Tank Environmental Assurance Fund did not reconcile the receipt information provided to them by the Revenue Cabinet with the amount transferred to them by the Finance and Administration Cabinet. Thus, the error was not detected by the Fund.

Revenue Cabinet

The Cabinet did not require all mail to flow through a central receipt area or otherwise ensure that all remittances were logged in prior to being forwarded to personnel throughout the Cabinet for processing. Central receipt listings provide a mechanism whereby the Cabinet can verify that all moneys remitted to the Cabinet have been properly handled.

36) Internal Controls Over The Receipt Function Should Be Improved (Continued)

The Cabinet did not ensure that property tax, motor vehicle tax, and coal severance tax receipts were properly classified.

The Cabinet did not provide a quarterly report to the Cabinet for Health Services that accurately reflected the amount of Provider Tax receipts collected. In addition, the Revenue Cabinet did not document the reconciliation of the amounts reported to the Cabinet for Health Services and the amount of the receipts actually received.

The Cabinet did not have procedures in place to properly document refund requests as they were received. The Cabinet's approach has been to document the maximum potential refund for a tax type rather than record each individual refund request as it is received. Thus, an accurate potential liability for the Commonwealth cannot be determined.

The Cabinet did not have procedures to ensure that refunds for motor fuels were properly coded. This resulted in motor fuel tax refunds, as well as motor fuel tax receipts, being understated.

Risk Management Fund

The Personnel Cabinet did not have procedures to ensure that moneys collected were deposited in a timely manner, as required by KRS 41.070. Six instances were noted where funds totaling \$26,070 were held from 13 to 45 days before being deposited into the state treasury.

Kentucky Kare Plan

The Personnel Cabinet's bank reconciliation procedures did not include a reconciliation of the bank balance to the checkbook balance. Without a reconciliation of the checkbook and bank balances, errors and fraudulent activity may go undetected.

Workforce Development Cabinet

The Division of Unemployment Insurance did not have adequate controls over refund requests to prevent duplicate requests for journal entry authorization. In addition, there was not adequate supervisory review of supporting documentation before the refund was approved. This resulted in a duplicate refund payment of \$19,463 being paid to a company/employer.

The Division of Unemployment Insurance did not always provide written explanations for adjustments to the UI-47 refund request. The Division did not always document verification of a company's statement that it was not liable for Kentucky Unemployment Insurance contributions. In addition, the UI-47 did not have the two signatures that are required by the agency.

36) Internal Controls Over The Receipt Function Should Be Improved (Continued)

The Division of Unemployment Insurance did not always compare the refund check amount with the amount stated on the enclosure letter.

The Division of Unemployment Insurance did not mathematically verify Pay-In Voucher (PIV) totals, nor did the Division compare the daily cash report to the PIV to ensure that the Voucher was properly posted. One instance was noted where the total on the PIV was \$909,000; however, the actual receipt and deposit sent to the Department of the Treasury was \$18,911.06. Treasury posted the incorrect amount. The Finance Cabinet prepared a JV increasing the receipts to agree with Treasury records. Since the Division of Unemployment Insurance did not compare the daily cash report to the PIV, the error was undetected.

Our testing of PIVs in the Division of Unemployment Insurance for reimbursements from other states, redeposits, and transfers from the Trust Fund to Unemployment Insurance benefits revealed the following: 1) Supporting documentation was not found for 12 of the reimbursements from other states; 2) Supporting documentation was not always sufficient to determine that the amounts posted were correct; 3) Six of the PIVs tested were not initialed, as required by Division policy; and 4) Four signatures did not appear to match the signature card of the Benefits Branch Manager.

Recommendation

We recommend the state agencies improve controls over their receipt function in the areas discussed above.

Agency Response

Office of the Petroleum Storage Tank Environmental Assurance Fund, Finance and Administration Cabinet, Revenue Cabinet, Personnel Cabinet, Workforce Development Cabinet, and the Department of the Treasury:

We concur with the recommendation.

37) Controls Over Expenditures Should Be Strengthened

The review of the control structures over expenditures disclosed the following weaknesses:

Finance and Administration Cabinet

- a) During our testing of 40 capital project expenditure documents within the Finance and Administration Cabinet (FAC), we noted the following: 1) Two instances where more than 20 working days had elapsed between the receipt of an approved vendor's invoice by the Department for Facilities Management and the transmittal of a warrant to the State Treasurer. In both instances, FAC did not add an interest penalty to the amount paid, even though the document was not paid within the 30 working days required by KRS 45.454; 2) Two instances where we could not determine the number of working days transpiring between the receipt of the invoice and the warrant date; 3) Two instances where copies of invoices were used to support expenditure documents; however, neither copy contained a statement certifying the invoice to be a copy of the original document; 4) Two instances where Pre-Audit examiners did not detect math errors on expenditure documents; and 5) Ten instances where the secretary for the Director of the Division of Contracting and Administration within the Department for Facilities Management signed the Director's name on the "agency head" line of the expenditure document.
- b) We noted one instance, during our review of capital construction contracts, where the lowest bidder awarded the contract did not meet the requirements of the Invitation to Bid. The Scope of Work in the Invitation to Bid required all drawings to bear the seal of a Professional Engineer. The firm awarded the bid did not have its drawings sealed by a Professional Engineer. When all bidders are not held to the same requirements, all bidders are not given an equal chance under the competitive sealed bidding procedures. It appears that a bidder is given an unfair advantage when he/she is not required to meet all of the specifications of the Invitation to Bid. This in turn could lead to ineffective bid procedures, higher contract prices and an increased cost to the Commonwealth for construction services.
- c) Capital project files in the FAC's Department for Facilities Management did not always contain sufficient documentation for Change Orders to capital construction contracts to justify the corresponding increases in project scope and cost. During our testing of capital construction projects, we noted instances that increased the scope and cost of the project which gave either no reason for the change or listed the reason as "Requested by Agency." When adequate justification is not required for increases to the scope and cost of capital construction projects, the resulting increase of expenditures could cause an unnecessary loss of funds to the Commonwealth.

37) Controls Over Expenditures Should Be Strengthened (Continued)

Finance and Administration Cabinet (Continued)

- d) During our testing of expenditures, we noted seven instances of split purchasing made by four agencies - Department of Insurance; Housing, Buildings, and Construction; Kentucky State Fair Board; and the Department of Parks. In addition, we noted two instances of duplicate payments made by the following agencies: Department of Corrections and the Kentucky State Fair Board.
- e) We noted three instances where the person signing the capital construction expenditure documents did not have proper authority according to the signature card on file with the Finance and Administration Cabinet, Division of Accounts. We also noted one instance where a document did not have the authorizing signature for the Secretary, Finance and Administration Cabinet. Failure to maintain current signature cards may preclude pre-audit examiners from verifying if a particular individual is allowed to sign certain documents. It also may appear as though the document was not reviewed and approved, and could allow for the processing of unauthorized and incorrect payments.

Transportation Cabinet

During district office visits, we noted discrepancies on individuals' time and expense reporting procedures. Inaccurate time reporting (Form 396) or coding of expenses on travel vouchers could lead to project codes being charged improperly.

Cabinet for Health Services

The Commission for Children with Special Health Care Needs did not consistently adhere to established internal control procedures. As a result, we noted the following exceptions from our test of 60 expenditure documents:

- a) One interaccount bill (with an affixed audit stamp) had no apparent date of service and no adequate description of applicable services rendered. One interaccount bill had no affixed audit stamp. A payment was made to a service provider with no approved contract or approved vendor listing on file. Allowing services to be provided without a contract is prohibited by state and federal regulations.
- b) The Commission failed to bill a family, in a pay category, for charges that should have been paid by that family. Instead, the Commission utilized Maternal Child and Health Services Block Grant money to pay for services that may have been the responsibility of another party. "BYLAWS OF THE COMMISSION FOR CHILDREN WITH SPECIAL HEALTH CARE NEEDS" requires that all other payment options, including patient billings, are to be exhausted before the Commission pays for services.

37) Controls Over Expenditures Should Be Strengthened (Continued)

Cabinet for Health Services (Continued)

- c) We noted two instances where purchase orders were missing from the Commission's files, which precluded the Commission from providing supporting documentation for several expenditures relating to the Maternal Child and Health Services Block Grant.
- d) We noted two instances where medical files had outdated financial forms. The Commission uses this form to obtain current financial information and possible payment status about clients. The Policy and Procedures Manual requires yearly updates of this form.

Cabinet for Health Services and Cabinet for Families and Children

Our analysis and testing of the internal controls over the imprest cash and travel functions indicated the following weaknesses:

- a) The imprest cash and travel sections did not promptly write off checks which had been outstanding over one year. Checks outstanding for this amount of time unnecessarily increase the accounting and administrative duties. Also, errors noted during the monthly bank reconciliation were not always followed up timely.
- b) Eleven documents did not contain the audit stamp, one document was charged to a different minor object code than the one designated by the accountant, three instances were noted where supporting documentation did not agree to the check register, one request for reimbursement lacked the check typist's initials and outstanding balance, and for one authority, the requests for reimbursement were not footed and crossfooted. These exceptions indicate a lapse in the audit procedures which should ensure the correct processing of imprest cash.

Labor Cabinet, Division of Special Fund

- a) During our testing of 75 claim files, we noted that claimant information contained in the claim files did not always agree to the information contained in the Special Fund's database. In addition, we noted three instances where the date of injury per the claim did not agree to the database; one instance where the award date per the claim file did not agree to the database; two instances where the nature of injury code did not agree to the database; five instances where the body part code did not agree to supporting information in the claim file; and eight instances in which the type of claim in the claim file did not agree to coding in the database.

37) Controls Over Expenditures Should Be Strengthened (Continued)

Labor Cabinet, Division of Special Fund (Continued)

- b) The Department of Worker Claims had, by regulation, adopted the latest claim coding manual; however, the Special Fund had not yet implemented the latest coding manual in processing claims.
- c) The Division of Special Fund did not have a procedure in place to identify attorney fees awarded by the “in excess of the \$15,000” limit, nor did it have a policy addressing how to challenge excessive fees.

Recommendation

We recommend the state agencies improve controls over expenditures in the areas discussed above.

Agency Response

Finance and Administration Cabinet:

We concur with the recommendation except as it relates to the following areas:

- 1) Relating to checking invoices for mathematical accuracy (see a) 4) above), Pre-Audit quit checking these several years ago due to duplication of effort by the agency and the Division of Accounts, and extended this requirement to the agency. The problem seen by Accounts is that the Pre-Audit Desk Manual did not reflect this change; however, we will be deleting this requirement from the Manual. Incidentally, in our review of these documents, the differences were minimal, in the cents range, and not cost effective to duplicate this effort in Accounts.*
- 2) (See b) above) We totally disagree with the recommendation. First, it was an emergency procurement approved by the Secretary of the Cabinet. Given an emergency, we believe the Cabinet has certain flexibility. It is true that the low bidder did not have a professional seal. Two bids were received - the low bid at \$353,891.50 and the second bid at \$617,332. An award was made to the low bidder at \$353,891.50. An emergency existed, and there was not time for a rebid. If we erred, we erred on the side of the taxpayer.*

37) Controls Over Expenditures Should Be Strengthened (Continued)

Agency Response (Continued)

- 3) *(See d) above) The Division of Accounts doesn't have a systematic way of preventing split purchasing from a pre-audit perspective. We concur that purchase regulation training in state agencies should be widespread, but are in no position to comment on the action or inaction of another Finance Department. As for strengthening controls in the pre-audit process over duplicate payments, there is no system mechanism available to check for duplicate payment in the STARS system. STARS has the capability to capture a "single" invoice number, thus, when multiple invoice numbers are paid on a single document those invoice numbers are lost. It is the Finance Cabinet's intention to expand the KAPS Purchase Order module utilization that currently notifies the user of a potential duplicate payment based on the 12-digit vendor number and all invoice numbers being paid on that Purchase Order.*

Auditor Response

- 1) *The auditor agrees that the purchasing agency should verify the mathematical accuracy of the invoices. However, a function of Pre-Audit is to ensure that payments made to vendors are correct. Failure to verify mathematical accuracy of invoices may result in overpayments or underpayments to vendors. An effective internal control to ensure against errors is the verification of mathematical extensions and totals on all invoices processed for payment.*
- 2) *Documents which we examined in the Department for Facilities Management's files indicated the work needed to be completed by April or May of 1996. The job was awarded in August 1995, with a projected completion date of January 1996. Based on the time indicated, we question whether there was a need to make an emergency declaration. There appeared to be adequate time to rebid this job and correct the errors made. Furthermore, we noted in the Determination of Finding Document prepared by the Department for Facilities Management that they agreed that the bid winner did not have the required documents. Facilities Management accepted the bid due to their claim of an emergency situation and that the omission of the engineer seal was a minor technicality. We inquired of a professional engineer who indicated the engineer's stamp is a crucial part of the total bid.*

37) Controls Over Expenditures Should Be Strengthened (Continued)

Auditor Response (Continued)

3) *The Division of Accounts with their Pre-Audit authority has a major part of the responsibility to ensure purchases are made in accordance with statutes. Perhaps the development of a software program could assist in this function. We reiterate that disallowing the use of photo-copied invoices will prevent most duplicate payments. FAC may want to utilize the procedures used by APA to detect split purchase and duplicate payments.*

Cabinet for Health Services and Cabinet for Families and Children:

We concur with the recommendation except as it relates to the requests for reimbursement. The Requests for Reimbursement were cross-footed, but not noted. It is not the policy that each DOA-16 must be cross-footed and noted by initialing on each.

Auditor Response

During our audit, for the one authority noted, we were told that the DOA-16 was not footed and cross-footed. We could have been misinformed, but by initialing a document as being footed and cross-footed, clear evidence is found that the procedure has been done.

Transportation Cabinet, Cabinet for Health Services, and Labor Cabinet, Division of Special Fund:

We concur with the recommendation.

38) Internal Controls Over The Kentucky Automated Purchasing System Should Be Improved

The following weaknesses were noted in the internal control structure related to KAPS:

Finance and Administration Cabinet – Division of Purchases and Department of Information Systems

- a) The KAPS Technical Manual was not revised to include changes since the last system update in 1991.
- b) Although several reports are available that enable management to monitor purchasing transactions by entities, all reports are not used. Those not used are the Requisition History Report by Buying Entity and the Procurement Summary Report.
- c) KAPS management is not following up on the exception reports to ensure that corrections are being made by the entities.
- d) KAPS management is unfamiliar with all of the query capabilities of the KAPS AS/400 and has no formal testing plan.

38) Internal Controls Over The Kentucky Automated Purchasing System (KAPS) Should Be Improved (Continued)

Finance and Administration Cabinet – Division of Purchases and Department of Information Systems (Continued)

- e) KAPS allows the user to enter a duplicate invoice number.
- f) Procurement of micrographics equipment and services are done manually instead of on-line with the KAPS system.
- g) Procurement of state vehicles is done manually instead of on-line with the KAPS system.
- h) Procurement of personal service contracts is done manually instead of on-line with the KAPS system.
- i) A hard copy of Purchase Order Receiving Reports is kept on file with a “wet” signature at the Division of Accounts, even though an electronic copy is maintained in the KAPS system.
- j) Agencies are not consistently informing the System Administrator of KAPS when their employees either transfer or terminate.
- k) There are no policies or procedures in place to ensure that the KAPS users’ access is commensurate with their job responsibilities. If users’ job responsibilities change, it may not be appropriate for them to keep their current access rights.
- l) KAPS is not fully Year 2000 compliant.
- m) The KAPS interface with the STARS system was not tested during the disaster recovery process.
- n) There is no automatic log out period for accounts; thus, an account can remain open indefinitely.
- o) The KAPS application does not provide reports of unauthorized access attempts to the KAPS application or data.
- p) Programmers have update access to the Production Libraries; thus, programmers are allowed to make unauthorized changes to the applications.
- q) Programmers have update access to KAPS data, which allows programmers to make unauthorized changes to the sensitive files.
- r) KAPS data files are growing large as a result of older data remaining on the system, which could contribute to the insufficient space capacity abends.

Recommendation

We recommend that internal controls be improved over KAPS in the areas noted above.

38) Internal Controls Over The Kentucky Automated Purchasing System (KAPS) Should Be Improved (Continued)

Agency Response

Finance and Administration Cabinet - Division of Purchases and Department of Information Systems:

We concur with the recommendation as it relates to the above except for the following:

- e) There are instances where duplicate invoices are necessary; e.g., in cases where a freight charge was overlooked and the invoice was short paid. Thus, another pay document with the same invoice number would be produced. Originally, the KAPS invoice screen would not allow the entry of a duplicate invoice from a vendor. The user was then put in a position where they had to get a new invoice from the vendor, which caused delays, or “make-up” a new invoice number. We then changed the “fatal” edit to a warning edit. This edit ensures that the user entering the duplicate invoice has made a conscious decision to do so. KAPS does not allow the creation of a Receiving Report for a PO that has an active receiving report or for a PO that has been finalized. We allow duplicate invoices but will produce a management report to alert the Division of Purchases to review when and why they were used.*
- i) Management’s interpretation of KRS 45.251 has been that payment documents (PO Receiving Reports) are to be signed via “pen and ink” by the authorized officer or employee of the agency making the payment. The signed payment document and invoice is maintained on file in the Finance and Administration Cabinet. The Division of Purchases will request that Cabinet level management review this interpretation and consider alternate methods.*
- p) These Production Libraries are outside of the realm of the Division of Purchases. Production Libraries are under the jurisdiction of the Finance and Administration Cabinet Security Officer.*

39) Physical Access Security Controls Over Electronic Information Systems Should Be Strengthened

We noted physical access security controls over electronic information system facilities were weak in several agencies.

Revenue Cabinet

Perimeter Park building monitoring and physical access security was not adequate. Our review disclosed surveillance cameras provide a limited view of building activity, and doors were occasionally left open and unsecured.

39) Physical Access Security Controls Over Electronic Information Systems Should Be Strengthened (Continued)

Finance and Administration Cabinet - Department of Information Systems

The Cold Harbor facility contains virtually all of the Commonwealth's critical computer hardware and software. Following are observations concerning a lack of adequate security measures at the facility.

- A guard was not always present in the building.
- Receptionists and guards stationed in the lobby area are not provided appropriate security instructions.
- DIS personnel are not required to use identification badges.
- One computer room is not appropriately secured from the office area.
- Many DIS personnel have a card key to the computer rooms even though their job responsibilities do not require them to have a daily need to be in the computer rooms.

Kentucky Higher Education Student Loan Corporation

The local area network file server is kept in an unsecured room which is accessible to all personnel.

Recommendation

We recommend the agencies take the necessary measures to improve physical security.

Agency Response

Revenue Cabinet, Finance and Administration Cabinet, and Kentucky Higher Education Student Loan Corporation:

We concur with the recommendation.

40) The Finance and Administration Cabinet - Department Of Information Systems' Mainframe Support Controls Should Be Improved

We noted several areas where the Department of Information Systems should improve their mainframe support controls. The following weaknesses were noted:

- Agencies were not provided with recommended policies and procedures regarding the use of certain system software products.

40) The Finance and Administration Cabinet - Department Of Information Systems' Mainframe Support Controls Should Be Improved (Continued)

- A system life cycle methodology, and other recommended procedures, for the development, continued maintenance and operations of applications developed in a distributed processing environment (such as LANs and client servers) was not provided to agencies.
- The security advantages of the time out capabilities for on-line applications should be communicated to state agencies.
- Procedures to be followed by DIS systems programmers to perform maintenance and security of systems software should be documented.
- Cryptographic technology should be used for sensitive data transmitted over networks.
- DIS should emphasize the need for state agencies to implement regular IMS database integrity checks.
- DIS should emphasize the need for batch logging in user agencies.
- DIS should emphasize to agencies that confidential reports printed at DIS can be tailored to special handling needs to preserve their confidential nature.
- RACF security monitoring reports should be provided to agencies.
- DIS should continue efforts to educate agencies about the importance in addressing the year 2000 immediately.

Recommendation

We recommend DIS take action to improve mainframe support controls.

Agency Response

We concur with the recommendation.

41) Agency Electronic Data Processing Controls Should Be Strengthened

We noted weaknesses in the electronic data processing control structure in several agencies.

Cabinet for Health Services and Cabinet for Families and Children

- Measures were not in place to ensure the confidentiality of sensitive reports printed by the Cabinets.

Kentucky Housing Corporation

- The Corporation did not follow its policy of notifying MIS of any employees who leave the Corporation so their access to the MIS system can be terminated.
- Many program changes are authorized verbally in violation of KHC policy. Change Request Forms were not used to document that the changes were authorized by management.
- MIS did not have adequate space to store backup tapes in a fire-proof vault.

41) Agency Electronic Data Processing Controls Should Be Strengthened (Continued)

Kentucky Higher Education Assistance Authority

- Password security should be strengthened by requiring minimum password lengths greater than four characters.
- An unique account identifier was not assigned to every user within the agency so accountability could be maintained.

Kentucky Higher Education Student Loan Corporation

- A computer security monitoring and reporting procedure should be developed for the local area network. Without regular monitoring of computer security, the risk that unauthorized access could occur is increased.

Kentucky Lottery Corporation

- The Lottery had not performed regular reviews to ensure that all software in place is properly licensed and in compliance with company policies and standards.

Labor Cabinet - Special Fund

- Duties of the computer operators were not rotated periodically to enhance controls over the integrity of the database and to minimize the impact of staff turnover.

Revenue Cabinet

- Our review disclosed a log was not kept recording the date, the original entry operator number, and the verification operator number for all entries. Maintaining a complete log decreases the possibility of data entry errors.

Recommendation

We recommend actions be taken to strengthen the EDP control structure in the areas identified above.

Agency Response

Cabinet for Health Services, Cabinet for Families and Children, Kentucky Housing Corporation, Kentucky Higher Education Assistance Authority, Kentucky Higher Education Student Loan Corporation, Kentucky Lottery Corporation, Labor Cabinet, and Revenue Cabinet:

We concur with the recommendation.

42) Agencies Should Improve Data Processing Controls By Limiting Employee System Access

Our review disclosed that several agencies could improve security procedures by limiting employee system access to the function(s) related to their job area.

Finance and Administration Cabinet - Department of Information Systems

- There were no procedures prohibiting DIS programming support access to production data.
- An appropriate segregation of duties was not maintained by allowing DIS programmers access to the production load libraries and production jobs libraries.

Kentucky Higher Education Assistance Authority

- The systems development manager's access to production libraries allows changes to be made in the production library without complying with the normal authorization process.

Kentucky Higher Education Student Loan Corporation

- Full supervisory access to the local area network computer system was not limited to only those staff which require that level of access to perform their job duties.
- Staff access within the account software package was not limited according to their job needs.

Labor Cabinet

- Adequate access controls were not maintained by allowing computer programmers access to live data files.

Recommendation

We recommend the necessary actions be taken to improve access controls.

Agency Response

Finance and Administration Cabinet - Department of Information Systems, Kentucky Higher Education Assistance Authority, Kentucky Higher Education Student Loan Corporation, and Labor Cabinet:

We concur with the recommendation.

43) Agencies Should Establish Information System Policies And Procedures To Reduce Security Risk

Our review disclosed agencies could improve information security by developing policies and procedures to address risk areas.

Finance and Administration Cabinet

- The Cabinet did not have detailed written policies and procedures identifying management and user responsibilities for system security.

Kentucky Higher Education Assistance Authority

- The Authority did not have a policy that ensures employees are reading and understanding the security document. Employees should be required to sign an annual statement declaring they have read and understand the information contained within the security document.
- A security awareness program to keep employees informed of corporate security policies and procedures did not exist.

Kentucky Higher Education Student Loan Corporation

- Formal security policies and procedures for computer users had not been approved by management, and a comprehensive computer security risk analysis to assist in the development of the policies had not been performed.

Kentucky Housing Corporation

- No policies and procedures had been implemented to address the monitoring of the MIS function such as changes to the production environment.

Personnel Cabinet

- The Cabinet had no written policies and procedures identifying management and user responsibilities for system security.

Revenue Cabinet

- The Cabinet did not have adequate written security policies and procedures identifying management and user responsibilities for system security. No formalized security awareness program had been developed.

43) Agencies Should Establish Information System Policies And Procedures To Reduce Security Risk (Continued)

Recommendation

We recommend the agencies implement policies and procedures addressing system security.

Agency Response

Finance and Administration Cabinet, Kentucky Higher Education Assistance Authority, Kentucky Higher Education Student Loan Corporation, Kentucky Housing Corporation, Personnel Cabinet, and Revenue Cabinet:

We concur with the recommendation.

44) Agencies Should Take Steps To Be Year 2000 Compliant

Two agencies were not year 2000 compliant. The Kentucky Housing Corporation had not initiated efforts to determine the impact of the year 2000 to in-house developed application software and vendor supported systems. The Kentucky Lottery Corporation had addressed the year 2000 issue, but had not made the necessary software modifications to be compliant.

Recommendation

We recommend each agency's electronic information systems be made year 2000 compliant.

Agency Response

Kentucky Housing Corporation and Kentucky Lottery Corporation:

We concur with the recommendation.

45) Electronic Data Processing Disaster Recovery Planning Should Be Strengthened

Weaknesses were noted in disaster recovery planning by the following agencies.

Cabinet for Health Services and Cabinet for Families and Children

- The Cabinets did not have a Disaster Recovery/Business Continuity plan independent of the DIS Recovery Manual that documents recovery procedures in the event of a loss of their facility.

45) Electronic Data Processing Disaster Recovery Planning Should Be Strengthened (Continued)

Finance and Administration Cabinet - Department of Information Systems

- The DIS Disaster Recovery Manual had not been updated to address changes in processing environments and to include back-up and recovery procedures for network and telecommunications.
- Adequate cartridges were not available for back-ups which are rotated off-site.
- DIS had not provided recommended disaster recovery policies and procedures to agencies with applications that do not reside on the state mainframe.

Kentucky Higher Education Assistance Authority

- The Authority had not documented the process for restoration of Wide Area Network (WAN) connections which exist in the Frankfort location. The plan had not been formally documented or tested.

Labor Cabinet

- The EDP Division's disaster recovery/contingency plan, which includes the Special Fund, had not been tested.

Personnel Cabinet

- The Cabinet had no written documentation analyzing the risks, identifying alternative systems and processing centers, or identifying resources not on the mainframe but still necessary to the orderly and timely recovery of operations.

Revenue Cabinet

- A disaster recover plan did not exist to cover Cabinet applications that are not on the mainframe.

Recommendation

We recommend that action be taken to correct the deficiencies described above.

45) Electronic Data Processing Disaster Recovery Planning Should Be Strengthened (Continued)

Agency Response

Cabinet for Health Services, Cabinet for Families and Children, Finance and Administration Cabinet, Kentucky Higher Education Assistance Authority, Labor Cabinet, Personnel Cabinet, and Revenue Cabinet:

We concur with the recommendation.

46) Controls Over Accounts Receivable Need Improvement

The following weaknesses were noted at state agencies handling accounts receivable:

Labor Cabinet, Division of Special Fund

The Division of Special Fund did not produce an aging of outstanding reimbursements; therefore, it was not readily apparent which payments were overdue and to what extent these payments were overdue. Also, no personnel within the Division of Special Fund were assigned to actively pursue overdue accounts; thus, no significant collection efforts were made on outstanding accounts.

Kentucky Higher Education Assistance Authority

The Authority did not have formal procedures in place to ensure insurance premiums were collected in a timely manner, and to ensure any differences between the Authority and the lender groups were reconciled timely.

Revenue Cabinet

The Revenue Cabinet did not have procedures in place to track changes in accounts receivable occurring during the fiscal year. Thus, we were not able to readily determine the aggregate dollar amounts and detailed transaction information relating to those changes, in order to arrive at the ending accounts receivable balance.

Recommendation

We recommend that action be taken to correct the areas addressed above.

Agency Response

Labor Cabinet's Division of Special Fund, Kentucky Higher Education Assistance Authority, and Revenue Cabinet:

We concur with the recommendation.

47) Procedures For Accumulating And Reporting Accounts Payable Should Be Improved

The review of internal controls over accounts payable disclosed the following weaknesses:

Department of Education

The Department of Education did not have adequate procedures to accumulate and report accounts payable in accordance with the Finance and Administration Cabinet's instructions, which resulted in certain accounts payable being omitted, and others incorrectly recorded. In addition, there was no documentation of supervisory review and verification of the totals reported to the Finance and Administration Cabinet on the closing package form (AFR 70).

Kentucky Higher Education Assistance Authority

The Authority did not estimate expenses payable at year end to the Kentucky Higher Education Student Loan Corporation (KHESLC), which resulted in an overstatement of a receivable from KHESLC.

Workforce Development Cabinet

The Division of Unemployment Insurance did not have adequate procedures to accumulate and properly estimate accounts payable for unemployment claims that were in effect prior to June 30, 1996. This resulted in accounts payable being understated by \$49,356,393, which required an audit adjustment.

Recommendation

We recommend that procedures for accumulating and reporting accounts payable be improved.

Agency Response

Department of Education, Kentucky Higher Education Assistance Authority, and Workforce Development Cabinet:

We concur with the recommendation.

48) Controls Over Federal Programs At The Cabinet For Health Services Should Be Strengthened To Include All Federal And State Requirements And Regulations

Our review determined that CHS did not have controls in place to ensure that all applicable federal and state regulations were followed.

- The Department for Medicaid Services (DMS) did not have a system in place to ensure that all pharmacy provider data in the Medicaid Management Information System (MMIS) was accurate. Furthermore, even though pharmacy provider agreements require a provider to notify DMS of a change in operational status, DMS had no system in place to confirm that the provider's information was correct/current or that all applicable provider information had been submitted to DMS. Of the 58 pharmacies tested, we noted several instances where pharmacy provider data maintained by MMIS was not current. These instances included: incorrect provider names and/or numbers, end dates which were not updated when the pharmacies closed, and certain payments made to pharmacies that had expired licenses. In addition, pharmacies' license numbers were not recorded in the MMIS, which makes it difficult to perform computer matches with existing sources of information.

Also, controls were not sufficient to ensure completeness of provider files. During our testing of 25 provider files, we noted one Medicaid provider file did not contain a provider agreement, six did not contain current licenses/permits to provide services, one did not include disclosure of ownership information, and one did not include an electronic transfer addendum. Without required documentation, payments may be made for services performed by an ineligible provider.

- The Department for Medicaid Services did not establish procedures to ensure the completeness of the population from which samples of claims were generated monthly for use in the Claims Processing and Assessment System (CPAS) testing required by the Health Care Financing Administration. There was no reconciliation of the population to control totals to ensure it represented the entire population of processed claims. As a result, some claims may have been excluded from possible selection for testing, which could have affected the reliability of the results of the CPAS testing.
- The Surveillance and Utilization Review Branch (SURS), Division of Audits, Office of the Inspector General, performs post-payment utilization reviews of providers and recipients who participate in the Kentucky Medicaid Program. During the course of our review, we noted 1) provider case reviews were not performed timely, and there was a lack of proper documentation in the case files; 2) SURS did not have up-to-date procedures regarding proper case documentation; and 3) SURS did not obtain the HCFA-2082 report for FFY 1995 to determine the minimum number of recipient cases required to be reviewed during each quarter of the FFY ended September 30, 1996. Untimely and incomplete case documentation increases the chances for inaccurate assimilation of the facts/data by the reviewer in the case file.

48) Controls Over Federal Programs At The Cabinet For Health Services Should Be
Strengthened To Include All Federal And State Requirements And Regulations (Continued)

- CHS did not effectively implement procedures to ensure compliance with regulations relating to food vendors' practices within the WIC program. In addition, WIC personnel did not review expenditures charged to the program for investigatory services by the Office of Attorney General.
- The Department for Medicaid Services did not have adequate procedures to prevent the payment of, or to identify past payments for, drugs with expired termination dates. During our testing of compliance with laws governing drug rebates, we noted that claims were paid for drugs which had service dates after the drug termination date, and no recoupments had been made.
- The Department for Medicaid Services did not have procedures in place that would ensure that all Medicare/Medicaid Certification and Transmittal (HCFA-1539) forms submitted by the Office of Inspector General, Division of Licensing and Regulation, had been received. Without complete notification of changes in instate hospitals' operational/certification status, provider data in the MMIS may be incomplete and/or inaccurate which could result in payment of claims to ineligible providers.
- The Office of Inspector General, Division of Licensing and Regulation did not have internal controls to ensure that standard surveys were performed within the required 15-month period for all nursing facilities and home health agencies. Federal expenditures could be disallowed for payments made to providers who have not been properly certified.

Recommendation

We recommend actions be taken by CHS to ensure that all state and federal regulations are followed for federal programs. These actions should be in writing where current regulations need change or new regulations need to be instituted.

Agency Response

We concur with the recommendation except as it relates to the Claims Processing and Assessment System and the completeness of provider files (Item 2) as discussed below.

The Claims Processing Assessment System (CPAS) is no longer required by HCFA, neither mandatory nor alternate. A HCFA transmittal notice dated August 13, 1996, notified state agencies that CPAS had been discontinued.

48) Controls Over Federal Programs At The Cabinet For Health Services Should Be
Strengthened To Include All Federal And State Requirements And Regulations (Continued)

Agency Response (Continued)

The Department of Medicaid Services is currently reviewing and redeveloping all its provider agreements. The State of Kentucky Boards of Licensure are sending tapes to analyze viability of automated input of the provider's licensure into the MMIS system on a yearly basis. Ownership disclosures are to be updated and the Department for Medicaid Services is working on an RFP to possibly contract for services to enhance this area. Currently no one is enrolled without a current and fully completed disclosure form. The preventative providers (Health Departments) are not licensed; therefore, this accounts for (one) provider not having a license on file. All provider forms, if not in total completion, are returned to the provider before being accepted and enrolled.

Auditor Response

The CHS Department for Medicaid Services has a responsibility to ensure the accuracy of claims paid. Under the current procedure, the failure to reconcile the CPAS tapes to the payments made results in DMS's not having assurance that all claims paid were susceptible to being tested. The first tenet in any valid sampling plan is to ensure that the sample is drawn from the total population – that all items in the population have an equal chance of being selected for sampling. Further, failing to implement controls unless they are required by the federal government ignores the fact that the Commonwealth pays a percentage of Medicaid claims and undermines the CHS's responsibility to take sufficient steps to safeguard taxpayer assets.

Documentation should be maintained for each required item for each provider type.

49) Controls Over Federal Programs At The Cabinet For Families And Children Should Be
Strengthened To Include All Federal And State Requirements And Regulations

Our review determined that CFC did not have controls in place to ensure that all applicable federal and state regulations were followed.

- During our testing of the Food Stamps program, we noted 65 instances where DSI Field Service supervisors did not establish a claim against a household within six months of the discovery date, as required by federal regulations and agency policy. On average, DSI took one year and seven months to establish a claim against a household from the time an overissuance was initially discovered for these 65 cases.
- DSI did not have adequate control over LIHEAP expenditures to ensure that costs were allocated properly between the weatherization and administration program codes. Specifically, we noted the following:

49) Controls Over Federal Programs At The Cabinet For Families And Children Should Be
Strengthened To Include All Federal And State Requirements And Regulations (Continued)

- LIHEAP material expenditures and weatherization material expenditures were transposed on certain Community Action Agency Service Cost Worksheets, resulting in expenditures of \$568 being incorrectly allocated between program codes.
- An error relating to a West Kentucky Allied Community Action Agency's Dwelling Report was corrected on paper, but not in the Energy Assistance Branch's (Branch) computer system. This resulted in \$35 and \$103 of weatherization material and labor expenditures, respectively, being omitted from the Branch's records.
- A math error of \$369 was made on a certain CAA's Service Cost Worksheet, resulting in expenditures being incorrectly allocated between program codes.
- An incorrect change was made to a December 1995 Dwelling Report, resulting in a \$40 error.
- FAC personnel did not sign the Northeast Community Action Agency weatherization contract for July 1995 to June 1996.
- DSI did not have written procedures for the administration of LIHEAP to 1) maintain a sufficient amount of crisis funds reserved until March 15, or 2) clearly communicate how the weatherization and administration expenditures are allocated and limitations computed. Without written procedures, federal regulations could be violated and tasks improperly performed.
- In our review of Supportive Services' payments to JOBS participants, we noted certain internal accounting controls, which were in place to ensure that only bonafide payments were made for non-recurring services, were not always followed. The following exceptions were noted:
 - Two files containing Authorization for Supportive Services Payments (PA-32's) could not be located.
 - One PA-32's unused lines were not "Xed" out to prevent the addition of unauthorized goods or services.
- The Department of Social Services did not consistently follow internal controls established to ensure that proper case documentation relating to compliance with eligibility requirements of the Foster Care program was maintained. Specifically, we noted the following exceptions:
 - Eligibility was determined late for 2 of 54 cases examined.

49) Controls Over Federal Programs At The Cabinet For Families And Children Should Be
Strengthened To Include All Federal And State Requirements And Regulations (Continued)

- Three of 56 case files examined had no Foster Home Contract Supplement (DSS-111As), as required by the DSS Program Manual, Chapter IV, Family and Children section.
- Three of 56 cases examined contained DSS-111As in which the rate had not been updated to reflect changes in the cases.

Recommendation

We recommend actions be taken by CFC to ensure that all state and federal regulations are followed for federal programs. These actions should be in writing where current regulations need change or new regulations need to be instituted.

Agency Response

We concur with the recommendation.

50) Subrecipient Monitoring Procedures Should Be Improved

The review of internal controls over the monitoring of subrecipients revealed the following weaknesses:

Department of Military Affairs

The Department did not adhere to the monitoring procedures as outlined in the State Administrative Plan for the Public Assistance Program. Specifically: 1) there were three instances where no "Summary of Documentation of Expenditures" was on file for small projects which had been completed; 2) DES did not follow up on problems noted during four of the ten site visits performed during the year; and 3) progress reports for large projects were not received quarterly from the subrecipients.

In addition, the Department did not have adequate procedures in effect to track and document the completion dates for projects to ensure that all projects were completed within set time limits in accordance with applicable laws and regulations. For instance, we noted eight instances where there was not sufficient documentation on file to determine that specific projects had been completed within applicable time limits.

50) Subrecipient Monitoring Procedures Should Be Improved (Continued)

Kentucky Department of Agriculture

We noted that the WIC-Farmers Market Grant Agreements with subrecipients did not contain references to federal compliance requirements related to Civil Rights, Drug-Free Workplace, Conflict of Interest, and Political Activity. Incorporating these requirements into grant agreements will assist the Department in ensuring that all subrecipients are aware and conform to all applicable laws and regulations.

Workforce Development Cabinet

The Office of Training and ReEmployment (OTR) was not effectively tracking the receipt and resolution of the annual independent audit reports of the Service Delivery Areas (SDAs) in accordance with the Job Training Partnership Act Financial Management Guide, Sections 5005 (c) and 5010 (b), as well as OMB Circular A-128. Failing to issue the initial and final determinations within the resolution period causes delays in the formal presentation of findings and recommendations, which may impede the SDAs in implementing acceptable corrective action. Additionally, SDAs may fail to realize the importance of the audit resolution process and the implementation of corrective action.

Cabinet for Families and Children

The Department of Social Insurance, Division of Management and Development did not document monitoring activities for 4 of the 15 Area Development Districts in the JOBS program for the year ended June 30, 1996. In addition, the Department did not monitor the Workforce Development Cabinet's activities relating to the administration of the JOBS program.

The Division of Child Support Enforcement (DCSE) did not adequately monitor the receipt of audit reports submitted by the county attorneys, to ensure they were in compliance with A-128. During our testing of DCSE's monitoring procedures, we noted that county attorneys' audit reports, as well as their corrective actions plans, were not always submitted timely. DCSE did not always send reminder letters to county attorneys whose audit reports were overdue. In addition, program compliance reviews were not performed during FY 96 to monitor child support cases to ensure necessary action had been taken in a timely manner.

DCSE did not have adequate procedures in place to ensure that desk reviews of county attorney financial audits were performed in a timely manner. DCSE has contracted with the Auditor of Public Accounts (APA) to perform desk reviews of county attorney financial audits. During our testing of financial audits, we noted:

- Eighteen audits were not reviewed within six months.
- APA could not locate thirteen audits sent for review.

50) Subrecipient Monitoring Procedures Should Be Improved (Continued)

Cabinet for Families and Children (Continued)

When problems occur with an audit report, DSCE cannot resolve the findings timely if reports are not reviewed promptly.

Recommendation

We recommend that the state agencies improve controls over subrecipient monitoring in the areas noted above.

Agency Response

Department of Military Affairs, Kentucky Department of Agriculture, Workforce Development Cabinet, and Cabinet for Families and Children:

We concur with the recommendation.

51) Controls Over Federal Programs Should Be Strengthened To Include All Federal And State Requirements And Regulations

The review of controls over federal programs revealed the following weaknesses:

Transportation Cabinet

Proceeds from the sale of surplus or excess property were not deposited timely. In 10 of 12 projects tested in the Highway Planning and Construction program, sales proceeds were held for three months to one year before being deposited. In addition, the Cabinet failed to accrue interest during this time, and the Federal Highway Administration did not receive its share of sales proceeds in a timely manner.

The Cabinet did not have adequate procedures in effect to identify and prohibit debarred or suspended parties from providing goods or services to federal programs.

Department of Fish and Wildlife Resources

The Department did not have sufficient controls in place over payments to federal programs to ensure: 1) the submission of the approved vendor's invoice with required documentation to the Finance and Administration Cabinet within ten working days of receipt of the invoice by the purchasing agency; 2) payment of the vendor's invoice within 30 working days; and 3) an interest penalty of one percent was added to the amount approved and unpaid after the 30 working days, as required by KRS 45.453 - 45.455.

51) Controls Over Federal Programs Should Be Strengthened To Include All Federal And State Requirements And Regulations (Continued)

Kentucky Commission on Human Rights

The Commission did not maintain required documents and adequate accounting procedures related to federal funds. Specifically, the Commission did not 1) have adequate procedures to monitor whether funds were received or spent according to federal grant requirements; 2) maintain the required documents to support expenditures; 3) properly account for federal funds (e.g., did not match expenditures with the source of funding); and 4) have adequate procedures to ensure expenditure documents were properly coded, mathematically correct, and properly approved.

The Commission did not have adequate controls over cash management to minimize the time elapsing between the transfer of funds from the U.S. Treasury and the Commission's disbursement. In addition, the Commission maintained excess balances of federal funds for an extended period of time. The agency did not have procedures which would have allowed the agency to determine the need to draw federal funds via a reconciliation of receipts and disbursements to the grant accounting file.

In addition, the Commission did not prepare an agency Affirmative Action Plan pursuant to the Commonwealth's Affirmative Action Plan and KRS 18A.138. Also, the Commission did not appoint an agency EEO Coordinator.

Finance and Administration Cabinet

During our review of the Statewide Cost Allocation Plan (SWCAP), we noted the following: 1) the SWCAP preparer did not maintain documentation of a supervisory review; 2) the SWCAP preparer incorrectly included "questioned costs" of \$1,718 in food products; and 3) the SWCAP included miscellaneous errors (incorrect personnel averages, allocations, etc.) resulting in a net overbilling of \$75,672 in "Fixed Costs."

According to OMB Circular A-87, "Costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as...meals...) are unallowable."

51) Controls Over Federal Programs Should Be Strengthened To Include All Federal And State Requirements And Regulations (Continued)

Department for Local Government

CDBG disbursements are processed from three data sets that are prepared for each draw and payment. One set is sent to Treasury and two are sent to FAC by uploading to the mainframe. Treasury produces an ACH tape and sends it to Farmers Bank as notification to wire a payment to the appropriate recipient. Farmers Bank and Treasury rely solely on the ACH account number to direct the release of funds. The vendor number does not have to agree with the ACH number. While DLG personnel reconcile the “Daily Restricted Funds Detail” (FAC 1550 report) to the Department’s records (Draw Request Memo), the review does not include a review of the ACH account numbers, which could result in a payment being recorded in STARS correctly but not being paid to the correct recipient. In addition, no comparison is made between the three data sets. Without a comparison of the ACH number, account number, and the STARS vendor number, the wrong subrecipient or an individual could receive grant money to which they are not entitled and/or the payment could be recorded incorrectly in STARS.

Natural Resources and Environmental Protection Cabinet

The Division of Abandoned Lands did not maintain adequate documentation in its project files to support the waiver of liens related to Abandoned Mine Land Reclamation Projects. Without adequate supporting documentation in the DAL project files, there was no way to determine if any significant increase in value to the land resulted from the proposed reclamation, or if the reclamation work would primarily benefit the health, safety, and general welfare of the greater community or area in which the land was located.

Workforce Development Cabinet

During our review of the Job Training Partnership Act (JTPA) Title II Quarterly Status and Annual Service Delivery Area Reports, we noted the reports did not agree to supporting documentation. These differences, totaling \$282,169 and \$136,900 respectively, were due to the misapplication of the incentive expenditure amounts. Failure to report accurate expenditure amounts could result in a misrepresentation of information to the U.S. Department of Labor, since the reports are used to determine local levels of participants, the availability of funds, and expenditures of available program funds during the program year.

Recommendation

We recommend the state agencies above implement procedures to ensure that state and federal requirements and regulations are followed for all federal programs.

51) Controls Over Federal Programs Should Be Strengthened To Include All Federal And State Requirements And Regulations (Continued)

Agency Response

Transportation Cabinet, Department of Fish and Wildlife Resources, Kentucky Commission on Human Rights, Finance and Administration Cabinet, Natural Resources and Environmental Protection Cabinet, and Workforce Development Cabinet:

We concur with the recommendation.

Department for Local Government:

Having reviewed the auditor's concerns with regard to the draw process, the division team with responsibility for processing draws of funds concurs that there is a potential for mismanagement. In light of this concern, we will review the aforementioned procedures very carefully and meet with Finance Cabinet officials in determining what process will best meet the needs of the Department for Local Government while protecting the fiscal integrity of this program. We are not at this time prepared to either concur with or recommend an alternative to the option put forth by the Office of the Auditor of Public Accounts.

52) Controls Over Cash And Investments Should Be Improved

Weaknesses in controls over cash and investments were noted at the following state agencies:

Department of the Treasury

We noted one instance where an I/L document, which contained investment information submitted by OFMEA, was not properly authorized by a designated Treasury employee prior to submission to the Finance and Administration Cabinet. Failure to ensure the accuracy of the investment information could result in inaccurate reporting of the investment transaction in STARS.

Finance and Administration Cabinet

The Office of Financial Management and Economic Analysis did not monitor collateralization levels on the term or overnight repurchase agreements. It is the fiduciary responsibility of the custodial bank involved in a tri-party repurchase agreement to properly value and account for the Commonwealth's securities; however, OFMEA had no procedures to ensure that the custodial bank was fulfilling this role as it relates to these two types of investments.

52) Controls Over Cash And Investments Should Be Improved (Continued)

Labor Cabinet, Division of Special Fund

The Division of Special Fund did not have adequate procedures in effect over claim checks to ensure that checks were safeguarded until they were mailed to the claimants. The checks were secured in a locked filing cabinet; however, the cabinet, as well as the key to the cabinet, was located in a commonly known area.

The Labor Cabinet did not have adequate procedures to ensure that all returned checks were accounted for properly. Returned checks were logged in by the person opening the mail, and, in the case of a recipient's death, by the claim coordinator, and were stored in a locked filing cabinet. However, an inventory of the returned checks was not compared to the logs on a regular basis.

Kentucky Workers' Compensation Funding Commission

The Kentucky Workers' Compensation Funding Commission's investment custodian provides investment portfolios, including various schedules of investment activities, to the Commission on a monthly basis. However, the Commission did not reconcile the investment information to the general ledger at the end of each month to ensure that investments were properly accounted for.

Kentucky Higher Education Student Loan Corporation

The Kentucky Higher Education Student Loan Corporation did not reconcile bank balances to the general ledger in a timely manner. We noted, during our testing of cash, that the lockbox included an unreconcilable difference of approximately \$13,000.

Recommendation

We recommend that action be taken to correct the areas discussed above.

Agency Response

Department of the Treasury, Finance and Administration Cabinet, Labor Cabinet's Division of Special Fund, Kentucky Workers' Compensation Funding Commission, and Kentucky Higher Education Student Loan Corporation:

We concur with the recommendation.

53) Controls Over The Payroll Function Should Be Improved

Weaknesses in controls over the payroll function were noted in the following agencies:

Administrative Office of the Courts

During our testing of 79 time sheets and leave records for 25 employees in the Administrative Office of the Courts, we noted the following exceptions: 1) Calculations on 20 time sheets were incomplete or inaccurate; 2) Records for four employees inaccurately reflected leave accrued or taken during the quarters examined; and 3) One time sheet was not signed by the employee, and four time sheets were not signed by the supervisor. Inaccurate or incomplete time sheets impair an agency's ability to account for its employees, hamper it from ensuring the accuracy of its payroll expenditures, and prevent it from maintaining accurate records of leave activity.

In addition, payroll checks printed in error were not promptly redeposited into the state treasury. Some checks were dated as long as ten months before the Pay-In Voucher. Safeguarding over the checks is weakened when they are not redeposited timely.

Department of State Police

The Department of State Police did not require or maintain time sheets that had been signed and dated by individual personnel.

Cabinet for Health Services

The Cabinet for Health Services did not have adequate procedures to ensure all time sheets were signed by employees. Three percent of the time sheets we tested had not been signed. Employees of Central State Hospital and Hazelwood Hospital were not always required to sign time sheets, rather, the time sheets were signed by the employees' supervisor. The employee review and approval of time sheets is critical for ensuring that time is properly recorded. Without evidence of this review, management cannot be assured that the review has been performed, and the likelihood of an error being made and going undetected is increased.

Recommendation

We recommend the state agencies improve controls over their payroll function in the areas discussed above.

Agency Response

Administrative Office of the Courts, Department of State Police, Cabinet for Health Services, Central State Hospital, and Hazelwood Hospital:

We concur with the recommendation.

54) Improvements In The Accounting Procedures Are Needed At Several State Agencies

The following weaknesses in the agencies' accounting procedures were noted:

Kentucky Housing Corporation

The Kentucky Housing Corporation is not amortizing service release premiums and premiums and discounts on investments over the life of the loan using the effective interest method. Currently, amortization is being calculated on a straight-line method which is not in accordance with generally accepted accounting principles.

The Corporation does not recognize interest income on restructured loans in accordance with Statement of Financial Accounting Standards No. 15 or No. 114. Currently, interest income is recognized by the terms of the debt after the restructuring.

Labor Cabinet, Division of Special Fund

The Labor Cabinet's Division of Special Fund's latest actuarial report did not project claims through the applicable balance sheet date. In addition, open claims were not annually revalued to take into account the life expectancy of the claimant.

Kentucky Lottery Corporation

The Kentucky Lottery Corporation currently has no on-line accounts receivable application which tracks sales and cash receipts by retailer. This results in a complicated and time-consuming reconciliation process at the end of each month to ensure on-line accounts receivable is properly recorded.

Although the Corporation's on-line sales and cash collections processes are primarily driven by computer applications, several manual entries are necessary to be made to the general ledger system on a regular basis to record activity which is being processed in other of the Corporation's or G-Tech's systems. The lack of automation increases the risk of human error, which could result in incorrect account balances being included in the financial statements.

54) Improvements In The Accounting Procedures Are Needed At Several State Agencies
(Continued)

Petroleum Storage Tank Environmental Assurance Fund

The Fund's actuarial analysis of liabilities as of December 31, 1995, did not report the Fund's aggregate claims liability and claim adjustment liability at that date, although such information could be gathered from the report. This resulted in additional calculation being required to determine the Fund's claims liability at June 30, 1996.

The Fund's unobligated cash balance recorded in STARS did not include the estimated liability applicable to the many applications pending review for which moneys have yet to be officially obligated. This resulted in an understatement of the Fund's obligations and overstatement of the unobligated cash balance as reflected in STARS.

Kentucky State Fair Board

The Kentucky State Fair Board does not perform general ledger account and bank reconciliations as part of the monthly closing process, but rather after the books have been closed for the month. In addition, the review and approval of journal entries were not always documented.

Recommendation

We recommend these state agencies implement changes to their accounting procedures to correct the weaknesses.

Agency Response

Kentucky Lottery Corporation, Petroleum Storage Tank Environmental Assurance Fund, and Kentucky State Fair Board:

We concur with the recommendation.

Kentucky Housing Corporation:

The Corporation agrees with the recommendation related to the amortization of service release premiums and premiums and discounts on investments. However, the comment related to recognition of income on restructured loans concerns only two of the approximately 16,000 outstanding loans held in the Corporation's portfolio. The effect on the financial statements is immaterial; thus, the Corporation believes a change in accounting procedures is unnecessary.

54) Improvements In The Accounting Procedures Are Needed At Several State Agencies
(Continued)

Agency Response (Continued)

Labor Cabinet, Division of Special Fund:

The Division of Special Fund agrees with the recommendation related to future actuarial studies. In addition, a program is being implemented to accomplish the suggested annual revaluation for actuarial valuation purposes. However, the suggested mortality study is beyond the staff capability of the Special Fund. Moreover, after due consideration, we have concluded that a formal mortality study is not indicated at this time.

55) Procedures For The Compilation Of The Schedule Of Federal Financial Assistance Should
Be Improved

The review of internal controls over the preparation of the Schedule of Federal Financial Assistance revealed the following weaknesses:

Natural Resources and Environmental Protection Cabinet

The Finance Branch of the Natural Resources and Environmental Protection Cabinet did not reconcile the financial balances of its two major programs – Abandoned Mine Lands and Surface Mining – with appropriate STARS records, to ensure accuracy of the Schedule of Federal Financial Assistance. We noted the following errors: 1) the AML balance differed from STARS by \$154,499; 2) the 1995 A&E grant was \$924,545 less than the amount shown in STARS; and 3) the 1996 A&E grant was \$827,681 more than the amount shown in STARS.

Department for Local Government

The Department for Local Government did not have adequate internal controls in effect over the preparation of the Schedule of Federal Financial Assistance to ensure the accuracy of the schedule. Specifically, we noted: 1) two grants were omitted; 2) incorrect information regarding federal grantors, program names, grant names and grant periods; 3) incorrect amounts reported for receipts, as well as expenditures, for several programs; 4) several errors in the presentation of the Notes to the Schedule; 5) several subrecipients were omitted from the schedule of subrecipients; 6) the Schedule of Federal Financial Assistance was not reconciled to STARS; 7) incorrect amounts for “other deductions” and “other additions” related to two programs.

55) Procedures For The Compilation Of The Schedule Of Federal Financial Assistance Should Be Improved (Continued)

Department for Local Government (Continued)

The above errors can be attributed to one or more of the following causes: 1) The Department did not strictly adhere to APA instructions; 2) the Schedule was not adequately reviewed with evidence of review and supporting documentation attached; 3) the Schedule was not completely reconciled to STARS with differences documented; 4) the Department's program files and responsibility for preparation of the Schedule were decentralized; and 5) the Department did not know how to properly show transfers on the Schedule. In addition, we noted three grants which had not been closed out in a timely manner. There had been no activity for two to three years, and these three grants had little or no funds left to draw.

Kentucky Commission on Human Rights

The Commission did not have written procedures for the preparation and review of the Schedule of Federal Financial Assistance. In addition, there was no documented supervisory review performed on the Schedule after its completion.

Recommendation

We recommend the state agencies improve controls over the preparation of the Schedule of Federal Financial Assistance in the areas noted above.

Agency Response

Natural Resources and Environmental Protection Cabinet, Department for Local Government, and Kentucky Commission on Human Rights:

We concur with the recommendation.

56) Controls Over Fixed Assets And Inventories Should Be Strengthened

The review of internal controls over fixed assets disclosed the following weaknesses:

Finance and Administration Cabinet

We noted several instances where computer-related equipment purchases were capitalized which should not have been, as well as instances where purchases which should have been capitalized were not. Errors of this type could result in a misstatement of the general fixed asset account group.

56) Controls Over Fixed Assets And Inventories Should Be Strengthened (Continued)

We noted two instances where increases to Construction-In-Progress were overstated by \$838,475. We also noted one instance where a decrease to Construction-In-Progress was understated by \$940.

The Cabinet did not periodically conduct physical audits of plant property, buildings, structures, other fixed assets, and equipment, as required by KRS 45A.045(5).

Four lease-purchase agreements entered into in FY 95 were not recorded as capital leases until FY 96. Failure to record all capital leases may result in the general fixed asset account group and the outstanding liability related to the leased assets being understated.

We noted several instances where the outstanding capital lease liability was not calculated in accordance with the amortization schedule, which resulted in a misstatement of the liability disclosed in the financial statements.

We noted one instance where a capital lease was excluded from the capital lease worksheet for governmental funds, which, if undetected, would have precluded the disclosure of the lease in the financial statements.

The review of internal controls over inventories disclosed the following weaknesses:

Personnel Cabinet

The Personnel Cabinet did not update its equipment inventory listing in a timely manner. Since insurance coverage extends only to items appearing on an equipment list provided to State Risk and Insurance, not all computer equipment was covered by insurance.

Kentucky Educational Television

Several enterprise inventory products were identified as being obsolete, which required an adjustment of \$30,000 to write off these inventory items.

Transportation Cabinet

The Transportation Cabinet did not maintain a perpetual inventory system for sign shop inventories, which could result in inventory balances being incorrectly priced. In addition, the Cabinet did not utilize standardized costing procedures for those inventories, which would assist in establishing purchasing patterns and in maintaining inventory stock levels.

56) Controls Over Fixed Assets And Inventories Should Be Strengthened (Continued)

Kentucky Horse Park

The Kentucky Horse Park did not update inventory records for latest cost. Two of eighteen unit costs tested in the Gift Shop did not agree to the vendors' last invoice for that item. In addition, two of six unit costs tested at the Campground did not agree to the vendors' last invoice. The Horse Park warehouse did not use latest cost inventory valuation method, but rather the average cost method. The latter is not considered an acceptable method by the Finance and Administration Cabinet.

Recommendation

We recommend that controls over fixed assets and inventories in the above agencies be strengthened.

Agency Response

Finance and Administration Cabinet, Personnel Cabinet, Kentucky Educational Television, Transportation Cabinet, and Kentucky Horse Park:

We concur with the recommendation.

57) Prior Audit Comments For The Year Ended June 30, 1995, Have Been Partially Resolved

MATERIAL CONDITIONS:

- *The Finance And Administration Cabinet's Procedures For Preparing The Comprehensive Annual Financial Report Should Be Better Documented And Improved*

Our audit showed this comment was partially resolved for the year ended June 30, 1996. See comment 10) for further discussion.

- *The Finance and Administration Cabinet Should Develop Procedures For Gathering And Reporting Information Relative To The State Investment Pool*

Our audit showed this comment was partially resolved for the year ended June 30, 1996. See comment 1) for further discussion.

- *The Revenue Cabinet Should Improve Receipt Procedures*

Our audit showed this comment was not resolved for the year ended June 30, 1996. See comment 4) for further discussion.

57) Prior Audit Comments For The Year Ended June 30, 1995, Have Been Partially Resolved
(Continued)

- *The Cabinet For Human Resources Should Improve Controls Over The Determination Of Accounts Payable*

Our audit showed this comment was not resolved for the year ended June 30, 1996. See comment 3) for further discussion.

- *The Department Of Education's Procedures For Preparing The Accounts Payable Closing Package Should Be Improved*

Our audit showed this comment was partially resolved for the year ended June 30, 1996. See comment 47) for further discussion.

- *The Cabinet For Human Resources' Department For Mental Health And Mental Retardation Should Implement Procedures To Monitor Subrecipients*

Our audit showed this comment was resolved for the year ended June 30, 1996.

- *The Department For Social Insurance Job Opportunities And Basic Skills Program Should Improve The Internal Controls Relating To Support Services Transportation Payments*

Our audit showed this comment was not resolved for the year ended June 30, 1996. See comment 9) for further discussion.

- *The Department For Medicaid Services Should Improve The Controls Over Drug Rebate Billings, Collection, And Recording*

Our audit showed this comment was partially resolved for the year ended June 30, 1996. See comment 17) for further discussion.

- *Documentation Contained In The Abandoned Mine Land Reclamation Program Project Files Should Be Improved*

Our audit showed this comment was resolved for the year ended June 30, 1996.

57) Prior Audit Comments For The Year Ended June 30, 1995, Have Been Partially Resolved
(Continued)

REPORTABLE CONDITIONS:

- *Treasury Should Improve Procedures Over Monitoring Investment Income And Performing Investment Reconciliations*

Our audit showed this comment was resolved for the year ended June 30, 1996.

- *The Revenue Cabinet Should Utilize The Automatic Log-Off Feature For Information Management System And Customer Information Control System Applications*

Our audit showed this comment was not resolved for the year ended June 30, 1996. See comment 6) for further discussion.

- *Controls Over Access To The Finance And Administration Cabinet's Security And Data Files Should Be Strengthened*

Our audit showed this comment was partially resolved for the year ended June 30, 1996. See comment 13) for further discussion.

- *The Revenue Cabinet Should Improve Controls Over Program Modifications*

Our audit showed this comment was not resolved for the year ended June 30, 1996. See comment 5) for further discussion.

- *The Finance And Administration Cabinet Should Ensure Program Modifications Made To The Statewide Accounting And Reporting System By The Department Are Appropriate*

Our audit showed this comment was resolved for the year ended June 30, 1996.

- *Logical Access Control over The Uniform Personnel And Payroll System Should be Strengthened*

Our audit showed this comment was not resolved for the year ended June 30, 1996. See comment 15) for further discussion.

- *Internal Controls over Receipts And Investments Should be Strengthened At Kentucky Kare*

Our audit showed this comment was materially resolved for the year ended June 30, 1996. The agency implemented a change in procedures at January 1996 whereby Health Care Alliance, through its Third-party Administrator, was given responsibility for billing and receiving premiums. See comment 36) for further discussion.

57) Prior Audit Comments For The Year Ended June 30, 1995, Have Been Partially Resolved
(Continued)

- *An Accounting System Should Be Developed To Provide Control Over Kentucky Kare Transactions*

Our audit showed this comment was not resolved for the year ended June 30, 1996. See comment 30) for further discussion.

- *The Personnel Cabinet Should Require Their Third-Party Administrator To Obtain A Service Center Audit Of Their Computer Applications*

Our audit showed this comment was not resolved for the year ended June 30, 1996. See comment 32) for further discussion.

- *The Department For Social Insurance Should Improve Controls Over Subrecipient Monitoring Within The Low-Income Home Energy Assistance Program*

Our audit showed this comment was partially resolved for the year ended June 30, 1996. See comment 26) for further discussion.

- *The Department For Social Insurance Should Establish Procedures To Monitor Glasscock McMullen*

Our audit showed this comment was not resolved for the year ended June 30, 1996. See comment 29) for further discussion.

- *The Cabinet For Human Resources Should Ensure That Subrecipient Audit Reports Are Received And Reviewed In Accordance With Office Of Management And Budget Circular A-128*

Our audit showed this comment was partially resolved for the year ended June 30, 1996. See comments 26) and 27) for further discussion.

- *The Cabinet For Human Resources Should Improve Internal Control Procedures Over The Medical Assistance Program*

Our audit showed this comment was partially resolved for the year ended June 30, 1996. See comment 48) for further discussion.

- *The Procedures Used To Input Random Moment Time Study Data Should Be Improved*

Our audit showed this comment was resolved for the year ended June 30, 1996.

57) Prior Audit Comments For The Year Ended June 30, 1995, Have Been Partially Resolved
(Continued)

- *The Department For Medicaid Services Should Improve The Internal Controls Relating To Waivers*

Our audit showed this comment was partially resolved for the year ended June 30, 1996. See comment 48) for further discussion.

- *The Department For Medicaid Services Should Establish Procedures To Ensure Pharmacies Are Licensed*

Our audit showed this comment was not resolved for the year ended June 30, 1996. See comment 48) for further discussion.

- *The Department Of Military Affairs' Procedures For Monitoring Subrecipients Should Be Strengthened*

Our audit showed this comment was partially resolved for the year ended June 30, 1996. See comment 33) for further discussion.

- *The Office Of Financial Management And Economic Analysis Should Improve Accounting And Reporting Procedures Over The Low-Income Energy Assistance Trust Fund*

We did not follow up on this comment. The program was not within the scope of our work for the year ended June 30, 1996.

- *The Cabinet For Human Resources Should Improve Controls Over The Kentucky Health Care Program*

Our audit showed this comment was not resolved for the year ended June 30, 1996. See comment 19) for further discussion.

- *The Cabinet For Human Resources Should Improve Controls To Ensure That Medicaid Payments Are Made For Only State-Approved Services*

Our audit showed this comment was not resolved for the year ended June 30, 1996. See comment 22) for further discussion.

- *The Cabinet For Human Resources Should Strengthen Controls over Estimation Of Contingent Liabilities*

Our audit showed this comment was not resolved for the year ended June 30, 1996. See comment 24) for further discussion.

57) Prior Audit Comments For The Year Ended June 30, 1995, Have Been Partially Resolved
(Continued)

- *The Cabinet For Human Resources' Department For Social Services Should Improve Their Audit Tracking And Review Procedures*

Our audit showed this comment was not resolved for the year ended June 30, 1996. See comment 27) for further discussion.

- *The Department Of Insurance Should Improve The Procedures Used To Compile The Year-End Closing Package*

Our audit showed this comment was resolved for the year ended June 30, 1996.

OTHER MATTERS:

- *Internal Controls Over The Receipt Function Should Be Improved*

Our audit showed this comment was partially resolved for the year ended June 30, 1996. See comment 36) for further discussion.

- *Controls Over Expenditures Should Be Strengthened*

Our audit showed this comment was partially resolved for the year ended June 30, 1996. See comment 37) for further discussion.

- *Electronic Data Processing Controls Should be Strengthened*

Our audit showed this comment was partially resolved for the year ended June 30, 1996. See comments 41), 42), 43) and 45) for further discussion.

- *Controls Over Accounts And Loans Receivable Need Improvement*

Our audit showed this comment was partially resolved for the year ended June 30, 1996. See comment 46) for further discussion.

- *Controls Over Federal Programs At The Cabinet For Human Resources Should Be Strengthened To Include All Federal And State Requirements And Regulations*

Our audit showed this comment was partially resolved for the year ended June 30, 1996. See comments 48) and 49) for further discussion.

57) Prior Audit Comments For The Year Ended June 30, 1995, Have Been Partially Resolved
(Continued)

- *Subrecipient Monitoring Procedures Should Be Improved*

Our audit showed this comment was partially resolved for the year ended June 30, 1996.
See comment 50) for further discussion.

- *Controls Over Federal Programs Should Be Strengthened To Include All Federal And State Requirements And Regulations*

Our audit showed this comment was partially resolved for the year ended June 30, 1996.
See comment 51) for further discussion.

- *Controls Over Cash And Investments Should Be Improved*

Our audit showed this comment was partially resolved for the year ended June 30, 1996.
See comment 52) for further discussion.

- *Controls Over The Payroll Function Should Be Improved*

Our audit showed this comment was partially resolved for the year ended June 30, 1996.
See comment 53) for further discussion.

- *Improvements In The Accounting Procedures Are Needed At Several State Agencies*

Our audit showed this comment was partially resolved for the year ended June 30, 1996.
See comment 54) for further discussion.

- *Procedures For The Compilation Of The Schedule Of Federal Financial Assistance Should Be Improved*

Our audit showed this comment was partially resolved for the year ended June 30, 1996.
See comment 55) for further discussion.

- *Controls Should Be Strengthened Over Community Development Block Grant Contract Changes*

Our audit showed this comment was resolved for the year ended June 30, 1996.

- *Controls Over Federal Reports Should Be Strengthened*

Our audit showed this comment was partially resolved for the year ended June 30, 1996.
However, we waive further comment.

57) Prior Audit Comments For The Year Ended June 30, 1995, Have Been Partially Resolved
(Continued)

- *Controls Over Fixed Assets And Supplies Inventories Should Be Strengthened*

Our audit showed this comment was partially resolved for the year ended June 30, 1996.
See comment 56) for further discussion.

- *Controls Over Imprest Cash Should Be Improved*

Our audit showed this comment was partially resolved for the year ended June 30, 1996.
See comment 37) for further discussion.

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APPENDIX

COMMONWEALTH OF KENTUCKY
LIST OF AGENCIES AUDITED
AS PART OF THE STATEWIDE SINGLE AUDIT OF
THE COMMONWEALTH OF KENTUCKY
FOR THE YEAR ENDED JUNE 30, 1996

The following is a list of the agencies audited as part of the Statewide Single Audit of the Commonwealth of Kentucky for the year ended June 30, 1996. APA reports are available upon request to the office of the Auditor of Public Accounts. CPA reports are available upon request to the respective audited agency.

Supplemental reports were generally issued for agencies having full-scope financial-compliance audits on an agency level basis. Since “other matter” comments are summarized in the Statewide Single Audit Report, a supplemental report will also be issued containing the detail of all “other matter” comments relating to those agencies which were audited as part of the Statewide Single Audit but for which an agency level report was not issued. These include principal and major program agencies, central level functions, and nonprincipal and nonmajor program agencies.

Agency Name	Auditor
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AGENCIES FOR WHICH SUPPLEMENTAL AGENCY-LEVEL REPORTS WERE
ISSUED:

Bluegrass State Skills Corporation	CPA
Kentucky Center for the Arts Corporation	CPA
Eastern Kentucky University	CPA
Kentucky Economic Development Finance Authority, Kentucky Mortgage Insurance and Guarantee Corporation, and Commonwealth Small Business Development Corporation	CPA
Kentucky Educational Savings Plan Trust	CPA
Kentucky Authority for Educational Television and Kentucky Educational Television Foundation	CPA
Finance and Administration Cabinet – Department of Information Systems (general computer controls)	CPA
Kentucky Higher Education Assistance Authority	CPA
Kentucky Higher Education Student Loan Corporation	CPA
Kentucky Horse Park	APA
Kentucky Housing Corporation	CPA
Kentucky Infrastructure Authority	CPA

<u>Agency Name</u>	<u>Auditor</u>
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AGENCIES FOR WHICH SUPPLEMENTAL AGENCY-LEVEL REPORTS WERE ISSUED:

(Continued)

Judicial Form Retirement System	CPA
Kentucky Kare Plan (Personnel Cabinet)	APA
Kentucky State University	CPA
Kentucky Local Correctional Facilities Construction Authority	CPA
Kentucky Lottery Corporation	CPA
Morehead State University	CPA
Murray State University	CPA
Northern Kentucky University	CPA
Office of the Petroleum Storage Tank Environmental Assurance Fund	CPA
Kentucky Retirement Systems	CPA
Kentucky State Fair Board	CPA
Teachers' Retirement Systems	CPA
Transportation Cabinet	CPA
Turnpike Authority of Kentucky	CPA
University of Kentucky	CPA
University of Louisville	CPA
Western Kentucky University	CPA
Kentucky Workers' Compensation Insurance Program (Labor Cabinet And Workers' Compensation Funding Commission)	CPA

AGENCIES INCLUDED IN THE COMPILATION REPORT OF "OTHER MATTER" COMMENTS:

Administrative Office of the Courts (agency level personnel and payroll functions)	APA
Department of Agriculture (major and nonmajor federal programs)	APA
Cash and Investment Functions (Department of the Treasury and the Finance and Administration Cabinet)	APA
Department of Education (agency level receipts, expenditures, and accounts payable, major federal programs)	APA
Cabinet for Families and Children (agency level receipts, certain expenditures, accounts receivables and payables, contingencies, major federal programs)	APA
Finance and Administration Cabinet (central level functions and revenue functions for certain organizational units)	APA
Finance and Administration Cabinet – Department for Administration (Statewide Cost Allocation Plan)	APA
Department of Fish and Wildlife Resources (See Note)	APA

<u>Agency Name</u>	<u>Auditor</u>
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AGENCIES INCLUDED IN THE COMPILATION REPORT OF “OTHER MATTER”
COMMENTS:

(Continued)

Cabinet for Health Services (agency level receipts, certain expenditures, accounts receivables and payables, contingencies, major and non-major federal programs)	APA
Kentucky Commission on Human Rights (See Note)	APA
Insurance Administration and Risk Management Funds (Department of Insurance and Personnel Cabinet)	APA
Department for Local Government (major and nonmajor federal programs)	APA
Department of Military Affairs (major and nonmajor federal programs)	APA
Natural Resources and Environmental Protection Cabinet (major federal program)	APA
Personnel and Payroll Functions (Finance and Administration Cabinet and Personnel Cabinet)	APA
Revenue Cabinet (central level tax receipts, receivable, and liability functions)	APA
Department of State Police (agency level personnel and payroll functions)	APA
Transportation Cabinet (major federal program)	APA
Cabinet for Workforce Development (major federal programs)	APA

AGENCIES NOT INCLUDED IN THE COMPILATION REPORT OF “OTHER MATTER” COMMENTS DUE TO HAVING NO “OTHER MATTER” COMMENTS:

Kentucky Arts Council (See Note)	APA
Office of the Attorney General (See Note)	APA
Department of Community Development (See Note)	APA
Department of Corrections (agency level personnel and payroll functions)	APA
Finance and Administration Cabinet (agency level personnel and payroll functions)	APA
Finance and Administration Cabinet (cash management function)	APA
Finance and Administration Cabinet – Office of Management and Budget (See Note)	APA
Governor’s Office for Policy and Management (budget process)	APA
Kentucky Health Purchasing Alliance (selected controls relating to receipts and disbursements)	APA
Kentucky Heritage Council (See Note)	APA
Council on Higher Education (See Note)	APA

<u>Agency Name</u>	<u>Auditor</u>
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AGENCIES NOT INCLUDED IN THE COMPILATION REPORT OF "OTHER
MATTER" COMMENTS DUE TO HAVING NO "OTHER MATTER" COMMENTS:
(Continued)

Justice Cabinet (See Note)	APA
Labor Cabinet (See Note)	APA
Kentucky Department for Libraries and Archives (See Note)	APA
Department of Parks (agency level personnel and payroll functions)	APA
Personnel Cabinet (central level Civil Rights function)	APA
Department of State Police (See Note)	APA

NOTE: Audit work related to nonmajor program federal compliance, a preliminary review of the internal control structure related to nonmajor federal financial assistance programs, and/or follow-up on prior year comments or questioned costs.

